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EXTRA

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CONFÉRENCE DES NATIONS UNIES SUR LE COMMERCE ET LE DÉVELOPPEMENT

BUREAU DU SECRÉTAIRE-GÉNÉRAL DE L'UNCTAD

Télégrammes : UNATIONS, GENÈVE
Télex : 22.212 ou 22.344
Téléphone : 34 60 11 33 40 00 33 20 00 33 10 00

Palais des Nations
CH - 1211 GENÈVE 10

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9 August 1967

Dear Mr. Friedman,

On behalf of Dr. Prebisch, I am sending you the document in which the comments received on the UNCTAD reports on trade expansion, economic co-operation and integration among developing countries are summarized. The comments contained in your letter of 19 January, 1967 are incorporated in this document.

Thanking you again for your valuable contribution.

Yours sincerely,

Christopher Eckenstein

Christopher Eckenstein
Special Adviser on Policy Matters
to the Secretary-General of UNCTAD

Mr. Irving S. Friedman
The Economic Adviser to the President
International Bank for Reconstruction
and Development
1818 H Street NW
WASHINGTON D.C. 20433
Etats Unis d'Amérique.

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Item 11 of the Provisional Agenda

TRADE EXPANSION, ECONOMIC CO-OPERATION AND INTEGRATION AMONG DEVELOPING COUNTRIES

Summary of comments from inter-governmental bodies on the reports contained in documents TD/B/68/Rev.1 and TD/B/85

Note by the UNCTAD Secretariat

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I. INTRODUCTORY REMARKS

1. At the fourth session of the Trade and Development Board a preliminary discussion took place on the subject of trade expansion, economic co-operation and integration among developing countries. At that time, the Board, in adopting resolution 32(IV), considered that the two reports submitted to it on this subject (report of an UNCTAD committee of experts, document TD/B/68/Rev.1,[1] report of the UNCTAD secretariat TD/B/85) require detailed study with a view to defining the action programmes that might be adopted by the time of the second session of the Conference and decided that a substantive discussion on trade expansion, economic co-operation and integration would take place at the Board's fifth session.[2] With a view to this discussion, the Board requested the Secretary-General of UNCTAD to transmit the reports to the regional economic commissions, the United Nations Economic and Social Office in Beirut, the existing economic groupings of developing countries, the international and regional financial institutions and appropriate inter-governmental organizations offering them the opportunity to comment on the reports.

2. Various of the financial institutions and inter-governmental organizations (the World Bank, the Food and Agriculture Organization, the African Development Bank, the Inter-American Development Bank, the Central American Common Market, the European Free Trade Association, the Maghreb Permanent Consultative Committee, The Council of Arab Economic Unity), offered such comments of a more or less detailed nature in writing and sometimes also orally, while other organizations expressed the hope to formulate more detailed comments after further examination, or submitted the reports to their member Governments for consideration (OECD, GATT, Union douanière et économique de l'Afrique centrale, Union douanière de l'Afrique occidentale, Regional Co-operation for Development). As regards the secretariats of the regional economic commissions, their ideas had already been taken into account in the elaboration of the reports (see for instance annexes to document TD/B/68);

1/ United Nations publication, Sales No. 67.II.D.2

2/ see Official Records of the General Assembly, Twenty-first session, Supplement No. 15 (A/6315/Rev.1), Part Two, chapter V and annex A.

additional comments, particularly from the Economic Commission for Latin America, the Economic Commission for Europe and the Economic and Social Office in Beirut, were received later, and the close permanent contact which the UNCTAD secretariat maintains with them offered several opportunities for discussing with them the suggestions contained in the reports. The present document presents in summarized form the comments received from all sources. In appraising the comments, account should be taken of the fact that often a particular view was expressed by one institution only and that the summary is not, therefore, necessarily representative of the views held in all the institutions consulted.

3. In a general manner, it was considered by the bodies consulted that the reports covered comprehensively all the means for the expansion of trade and economic integration among developing ciuntries and the problems arising in practice. It was recognized that the problems facing developing countries in forming a regional grouping were often very different from those encountered by developed countries in similar efforts. On the other hand, it was stressed that trade expansion and economic co-operation within a region could make a significant contribution to the strengthening of the countries' individual as well as collective bargaining position vis-à-vis the rest of the world. While it was pointed out that it would be for the developing countries to take the initiative for the necessary intensification of trade expansion and integration efforts among themselves, it was also regarded as probable that the general attitude of the industrialized countries toward such efforts might have some effect on the willingness of the developing countries to undertake such initiatives.

II. COMMENTS RELATING TO ACTION BY DEVELOPING COUNTRIES

Scope of co-operation

4. As to the general methods for intensifying trade, economic co-operation and integration among developing countries, it was pointed out that the approach to an integration scheme should be gradual and that over-ambitious objectives might hamper, rather than accelerate, the process. At the same time, it was considered that this process of co-operation should extend to as many fields as possible, an extension which might to a certain extent be reassuring; for should the negotiations on the removal of trade barriers or on the distribution of investments

continue over a long period without results, the existence of other fields where co-operation is being carried out successfully may lessen any sense of failure that would be detrimental to the regional effort as such. It was thought that an effort of co-operation extended to a variety of fields may also suitably be carried out in a geographically wider group of countries than is covered by the integration effort proper. One remark made in this connexion was to the effect that fewer difficulties seem to arise when a comparatively loose form - such as a free trade area which does not aim at harmonizing external tariffs, taxes, labour market conditions - is chosen. The European Free Trade Association was cited as an instance showing that it was not absolutely necessary that a regional grouping should form a geographical entity to achieve valuable results, although trade has expanded at a higher rate among the geographically contiguous members of that group.

Trade liberalization

5. With respect to the problems of trade liberalization, the experience of one group of developing countries was mentioned as showing that little progress could be made if reciprocal obligations were limited to the abolition of tariffs, if at the same time, countries in the grouping maintained quantitative restrictions on items not previously traded among the countries concerned. It was also mentioned that the commitments should be conceived in such a way as to bring equivalent advantages to all members of a group. A group of developed countries refers to its experience as showing that a common external tariff is not a prerequisite for successful trade liberalization among a group of countries; for this group's practical experience of the operation of rules of origin shows that the problems of origin can be resolved. To take into account different levels of development within that group, the one less advanced member country of the group has been authorized to apply a slower timetable of tariff reductions and to increase tariffs in connexion with its establishment of new industries. Opportunities of access to a regional market without trade barriers are thus given to industries which at the same time continue to enjoy protection in their home market. If, however, an industry exports for three consecutive years more than 15 per cent of its production, the country in question is expected to

apply a faster timetable of tariff reductions to the imports of the product concerned "from other members of the group". As to the means for solving the problems of revenue losses from tariff abolition, this group refers to its practice of allowing a member State not to eliminate tariffs on the so-called revenue items that is those not produced domestically as well as to the replacement of import duties through internal taxes which are equally applied to imported and home-produced products.

Investment policy

6. With respect to the question of investment policy arising in connexion with trade liberalization, the reply from one developing region regards the harmonization of investment or production programmes as a fundamental requirement. The reply states that, in spite of resolutions by the Governments to this effect, similar industries are being established in the various countries without taking any account of possibilities of division of labour according to comparative advantage in the region. A reply from a developed country group states that the establishment of free trade on a regional basis generally results in a rational allocation of resources in that group, the promotion of investments being left to each individual member State. With reference to the view expressed in document TD/B/85, chapter III, paragraph 26, that an integration process consisting of the mere elimination of trade barriers would support or stimulate the tendency of investments to concentrate in the more advanced countries or areas, the experience of EFTA is mentioned as showing to the contrary that there has been a growing tendency in recent years for industries in highly industrialized member States to make new investments in less developed regions of the group. At the same time, it is recognized that technical assistance will be required, and this assistance is given by the more advanced countries of the group if a less advanced member country wants to develop a particular industry which has already achieved a high standard in other member countries; regional efforts among developing countries on the other hand would mostly have to be supported by assistance from outside the particular group.

Agricultural products

7. It was recognized that with respect to the liberalization of trade in agricultural products, the techniques suitable for manufactured products did not readily apply, and agreement was expressed with the view of the UNCTAD reports that the rate of progress in the industrial sector should not depend on the results achieved in regard to agricultural products. But attention was also drawn to the danger that, unless an effort was made to devise ways and means of including agricultural trade in the relevant arrangements, they would prove too limited in scope because of the predominantly agricultural character of the developing countries. Moreover, they might produce undesirable effects on the direction of investments. Accordingly, it was stated that the existing tendency in developing countries to underestimate the essential role of agriculture in the development process might be accentuated if the pressure for industrialization was increased by the creation of a larger market basis and if, consequently, essential investments were diverted from agriculture to industry.

Payments arrangements

8. The need for multilateralizing existing payments arrangements was stressed in one comment which referred to the need for considering also forms of financial co-operation among developing countries other than a payments union. While (according to this comment) it would be desirable to introduce such sophisticated mechanisms, the insufficient readiness of Governments to accept such schemes should accordingly also be taken into account. In this respect attention was drawn to the procedures employed by the Economic Commission for Europe for multilateral compensation of bilateral clearing balances and to the fact that developing countries have resorted to these procedures in recent years. It is suggested that the expansion of trade among developing countries might be fostered by the adoption of such compensation procedures, modelled on the ECE system and based on existing bilateral clearings. When one party's credit balance exceeds the "swing credit" limit, payment would not be required from the debtor country in convertible currencies or gold (as is generally now the case) but instead could be made in the form of a transfer from a clearing balance held by the debtor country in a bilateral clearing account with a third country. If so

desired, a maximum amount for this "transferable clearing" tranche could be agreed upon in advance and transfers from certain third countries might be excluded from automatic transferability. The requirement for payment in convertible currencies or gold would then arise only after this "transferable clearing" limit had been exceeded. Transfers under such a supplementary tranche could be facilitated through use of a central agent or clearing-house procedure under the auspices of the United Nations Secretariat without any special expenses for the countries using this procedure. It is admitted that such an approach would not constitute a large step towards convertibility, but it is argued that it would have the advantage of requiring very little change in present practice while preparing the ground for more ambitious steps later. It would also enable developing countries to face with greater assurance the risk of unbalanced trade between them.

Expansion of trade among the developing countries as a whole

9. With respect to the expansion of trade among developing countries on an intercontinental scale, it is stated in one comment that while such efforts are likely to yield, for a variety of reasons, more limited results than moves toward regional markets, they deserve to be analysed further by UNCTAD. Among the products which might be imported in larger quantities from developing countries would be machinery and industrial equipment, particularly of those types not involving highly mechanized fabrication techniques and using a high labour input. India and some of the more industrialized Latin American countries have been exporting such products even to developed countries, and much more could be exported to other developing countries. One problem has, however, been that the offer has often not been stable; the rate of exchange in relation to the internal price level, the fiscal charges and the level of domestic demand have made it difficult to maintain such trade flows. Another problem may be that, for establishing such trade flows to less advanced developing countries, the more advanced ones would be expected to import in their turn from the former some goods which would presuppose a special effort on their part to identify such products. As for the trade in such goods among the more advanced of the developing countries, the similarity of the production programmes is an inhibiting factor. The view was, therefore, expressed that the big international firms might subdivide among their branches and affiliates in various countries the production of the parts and components of industrial equipment and installations; in Latin America there already exist examples of such action.

10. With respect to tariff concessions among developing countries in general, one comment suggested that UNCTAD, if possible with the collaboration of GATT, should explore further whether or not it would be appropriate that such concessions be extended to all developing countries or only to those which have given a counterpart concession. The principle of automatic extension of concessions may limit their scope because of the fear that a third developing country would benefit from them without granting adequate reciprocity; their non-extension, on the other hand, may lead to an extremely complicated net of bilateral and triangular exclusive concessions. A suggested partial solution was that the concessions negotiated between the more advanced developing countries should be extended automatically to the relatively less advanced ones.

The question of action programmes

11. With respect to the suggestion that developing countries should prepare, with a view to the second Conference, action programmes for the expansion of trade and integration among themselves, attention has been drawn to the following efforts that might form the basis of such action programmes.1/

(a) In Latin America, the Heads of State announced, at a meeting at Punta del Este in April 1967, their intention of negotiating concrete commitments for creating progressively from 1970 a Latin American common market.

(b) In Africa, at the Lagos session of the Economic Commission for Africa in February 1967, its members formally recognized "that the determination of the developing countries to play their own part in the fulfilment of the objectives of UNCTAD should be underscored in a particularly manifest way by their presenting to the second Conference a specific action programme agreed upon during the next meeting of the Group of 77, to expand trade and co-operate economically among themselves as recommended in resolution 32(IV) of the Trade and Development Board". At the same session, it was agreed that in the West African and the East African sub-regions, the possibilities for trade liberalization on an item-by-item basis should be explored with a view to negotiations among the countries concerned.

(c) In Asia, the Ministerial Conference of the ECAFE countries in April 1967 requested the Executive Secretary of the ECAFE "(i) to constitute immediately a Study Group of Government representatives for preparing urgently a practical plan of action in different fields of regional economic co-operation

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1/ A brief survey of what has already been done regarding the expansion of trade and integration among developing countries is contained in document TD/B/85, Chapter III, and in the "Review of International Trade and Development 1967" at present being prepared by the UNCTAD secretariat.

particularly expansion of trade among the countries of the region within the framework of the principles internationally agreed upon, taking into account also the recommendations of the Group of Experts on regional economic co-operation in Asia held in 1961 and 1963 and the recommendations of the two Ministerial Conferences on Asian Economic Co-operation relating to the expansion of trade in the region; and (ii) to convene a ministerial conference of the countries of the region as soon as possible before the next UNCTAD Conference to examine the report of the Study Group for consideration of suitable arrangements for implementing the proposals for regional economic co-operation with special reference to the expansion of trade in the region".

(d) In connexion with the suggestion that among the developing countries as a whole, whether or not they are Contracting Parties to GATT, negotiations on tariff concessions that would be applicable to all of them be organized in a suitable multilateral framework, it should be noted that about twenty developing countries which are Contracting Parties to GATT have initiated tariff negotiations among themselves.

III. COMMENTS RELATING TO THE POSSIBILITIES OF INTERNATIONAL ACTION IN SUPPORT OF THE DEVELOPING COUNTRIES' JOINT EFFORTS

The principle of international support action

12. The comments generally recognize that international action could effectively support the developing countries' efforts to expand trade and move toward integration among themselves. The World Bank group of institutions stated that they would view with great sympathy the efforts of developing countries towards regional co-operation, that the Bank had long encouraged regional groupings and would not only welcome but seek out similar opportunities in the future. With respect to Latin America, reference was made to the action programme adopted by the Heads of State of the member countries of the Organization of American States at Punta del Este in April 1967, in which it was agreed that outside financial and technical assistance should be mobilized with a view to contributing to the solution of specific problems that may arise in the eventuality of an accelerated move by the Latin American countries toward a common market. As for Africa, reference was made to the efforts undertaken for setting up under the African Development Bank a special fund for integration purposes. It was also pointed out that the banks mentioned as well as the Asian Development Bank had the advantage of pooling a limited amount of funds

and talents from the region and of being able to mobilize additional amounts of aid with a view to identifying and financing projects of regional interest, in spite of differences in political philosophy, resources and economic development among the countries concerned. As far as the Middle East was concerned, the view has been expressed that it does not seem that the countries in that region prepared to co-operate with each other were too few or collectively too poor for creating a suitably endowed financing agency.

The question of a formal declaration of support

13. The suggestion that in connexion with the second session of the Conference a policy declaration of international support for trade expansion and integration efforts among developing countries be adopted was welcomed by several of the bodies consulted. It was regarded as a possible means for spreading the awareness of the importance of such efforts and for contributing to the diversification of the sources of external support for specific regional efforts. It was, however, pointed out that it might be more realistic to mention support for "joint efforts" rather than to stress mainly "integration". For instance, efforts between countries to build a multinational infrastructure or to lower trade barriers among themselves to a reasonable level would in themselves be measures worthy of external support. It was thought that the specific difficulties arising in efforts of economic co-operation among developing countries might in many cases be approached more resolutely and with greater assurance of success if, as a result of the second session of the Conference, an international policy were to emerge that would be favourable to joint efforts by developing countries even in connexion with less far-reaching steps than integration. The view was expressed that Africa would appear to be particularly interested in a steady improvement of the climate with regard to regional efforts because most African countries are so small that multinational co-operation is a vital condition for accelerating African economic development. It was, however, also mentioned that a policy declaration of support might be of little value if it did not contain indications as to the types of problems for the solution of which support could be envisaged. On the other hand, it was pointed out that financial support for integrated economic development should not be conceived as a substitute for the improvement of the prices and conditions of access for the traditional exports from the developing countries to the markets of the developed countries. Such improvement would be particularly

important for the less advanced developing countries because it would allow them to earn the additional financial resources that are indispensable if they are to participate successfully in an integration effort with more advanced developing countries.

Increased regional emphasis in aid programmes

14. With respect to the suggestion for an increased regional emphasis in aid programmes, it was pointed out in some answers from the developing part of the world that this emphasis should generally take the form of additional resources being provided for this purpose. Attention was drawn to the need to avoid giving the impression that the object was to reduce the amounts of aid to individual countries. It has, therefore, been suggested that any general declaration should stress the positive aspect, in the sense that countries engaging in joint efforts could, in dealing with a series of specific problems, look forward to a positive attitude on the part of the international community.

15. Regional banking institutions were recommended as suitable channels for achieving an increased regional emphasis in aid programmes. It was pointed out furthermore that also bilateral aid might be given to such regional institutions rather than only to national governments. Attention was, however, drawn to the need to ensure that in consequence of the greater number of intermediaries, interest rates on the credit received would not be higher than on credit granted directly. This problem may arise if there exist both a sub-regional integration movement with its own integration bank and programme for a wider region which is supported by a continental development bank. One view was that in such cases the credits from the outside for sub-regional infrastructural and industrial projects should be granted directly to the sub-regional banking institution.

Assistance for achieving balanced development

16. Various comments stress the importance of outside assistance to enable integrating areas to achieve balanced development. The regional banking institutions are regarded as a most suitable instrument for ensuring balanced development. According to many of the comments received, outside assistance would be necessary for the building of a regionally balanced infrastructure. So far as the World Bank was concerned it was stated that, if approached by a group of countries, it would be prepared to examine the investment programme of the group and to provide financial assistance for specific projects in accordance with the Bank's policies

and procedures. In comments from other bodies it was emphasized that international support should be given for the establishment and financing of productive activities in the relatively less advanced countries because such support would enhance the interest among those countries in participating in trade liberalization and integration schemes. Reference was made in this connexion to the continuing nature of the regional institutions' task to prevent and correct tendencies toward greater disparities in the course of an integration process. With respect to the suggestion concerning outside assistance for compensating revenue losses resulting from trade liberalization efforts, it was stated that developed countries generally did not wish their aid to be used for filling budget deficits. According to a comment from a group of developing countries, resources available for supporting integration might be limited and therefore consideration of forms of support other than compensation for revenue losses deserved priority; according to this comment, developing countries might be expected to make good fiscal losses by tapping other sources of revenue.

Assistance in connexion with investment policy

17. The bodies consulted recognized that outside assistance would be needed for pre-investment or feasibility studies for multinational projects, either in the field of infrastructure or of productive activities in the developing countries. With respect to Latin America, a special fund under the Inter-American Development Bank has already been established for this purpose. It was pointed out in some comments that national planning authorities quite naturally tended to pay attention to the investment opportunities existing in their own countries. If, on the other hand, regional institutions were endowed with the necessary financial and human resources for seeking out and, as the case may be, promoting - in co-operation with the countries concerned - multinational projects, these institutions would be able to play a valuable part in facilitating the emergence of a larger than national framework of economic co-operation.

18. With respect to the suggestion for an explicit international declaration to the effect that support should be given above all to projects of multinational interest, it was stated so far as the World Bank was concerned that it endeavoured to encourage such projects. It was pointed out, however that projects of this kind were often difficult to arrange, the problem being usually not how to find the necessary finance but how to secure agreement between the countries concerned. However, it was stated that every effort to secure the necessary agreement for such

projects would continue to be made. The same institution expressed reservations as to whether multinational projects should receive priority over other projects. It stated that, while some priority might be given to such projects in terms of efforts spent upon them, they would nevertheless have to be appraised by the same criteria of economic soundness as are applied to all projects; it would be a mistake to attempt to bring about economic integration by establishing uneconomic projects.

19. In another comment, attention was drawn to the measures which developing countries might take to avoid duplications of investments. It was recognized that such measures should be limited to large projects which would depend vitally on access to the whole regional market. In these cases, it should be provided that external resources would not be made available for promoting unilateral national actions.

20. As to the suggestion that outside support would be needed to enable existing industries to become competitive in a wider multinational market, attention was drawn to the fact that assistance for modernizing existing industries and for retraining the workers had been accepted at the Punta del Este meeting in April 1967. More generally, it was thought that developing countries might be more willing to undertake trade liberalization commitments among themselves if they could count on such assistance. The responsibility for applying the assistance received to the individual firms might be taken over by the national development banks.

21. It was recognized in some comments that integration efforts would increase the need for strengthening domestic firms of the developing countries in order to enable them to benefit from the enlargement of the market. It was thought that one way of contributing to a solution of this problem would be to provide - as in the case of various regional banking institutions - that such banks could take equity participation in enterprises established with a view to the regional market. Outside assistance to these regional banks would enable them to act in this way. One comment refers to the suggestion that the International Finance Corporation should promote joint ventures of enterprises forming part of an agreed programme of regional integration, and states that there is no reason why IFC should not participate in such ventures provided that they are economically sound and fall within its normal lending rules. With regard to the implication in one of the reports that IFC's resources need to be increased, one comment pointed out that

these resources had recently been increased by means of a substantial loan to the IFC from the IBRD. Another reply mentioned that the expansion of the activities of domestic firms to the whole regional market would be facilitated if the risks of double taxation were eliminated.

22. In one comment the opinion was expressed that, in view of the limited external financial resources available, it might be necessary to indicate which of the many measures suggested in TD/B/85 would be likely to have the greatest positive impact upon development in the context of an integration programme. According to this view, priority should be given to support measures in the field of investment policy, i.e. for pre-investment studies, for a multinational investment programme designed to ensure a balanced development of the countries concerned, for adjustment measures in relation to existing industries and for action to enable regional institutions to take equity participation.

23. One comment suggested that the developed countries should guarantee, by means of an endorsement, bond issues which regional banks would want to place in the developed markets. In many cases, such an endorsement would make it much easier to obtain promptly resources which would, moreover, come from private investors - and this fact might be regarded as an advantage.

Financing related to trade

24. With respect to the solution of the problem of balance of payments deficits that might result from temporary imbalances in regional trade expansion schemes, some comments recognized the need for outside assistance. One of the means mentioned was the payment of contributions into a reserve fund which would form part of the payments arrangement. But it was stressed that criteria should be established for the operation of such an arrangement, in order that resources provided for this purpose would not be used to solve problems resulting from inadequate internal monetary and fiscal policies.

25. The suggestion that aid should be "untied" at least as regards imports from other developing countries was also supported in some comments.

26. With respect to credit for exports from developing countries, reference was made to the scheme of the Inter-American Development Bank for financing the trade in capital goods among Latin American countries. It was pointed out that, with outside assistance, it should be possible to extend such credit mechanisms to manufactures in general, to exports from any developing country, as well as to short-term financing. Such a measure would enable exporters from developing countries to compete on equal terms with firms from developed countries.

Technical assistance

27. Some comments referred to technical assistance to foster the expansion of trade, economic co-operation and integration among developing countries. As far as EFTA was concerned it was stated that it was ready to assist both the UNCTAD secretariat and developing countries on how to draw up appropriate provisions for regional groupings and how to administer such arrangements. In this connexion, the view was also expressed that one of the most urgent tasks of the United Nations would be to train, possibly at a special training centre to be set up under the auspices of UNCTAD, national and international experts in the general problems of integration, including the various possible approaches and the ways of negotiating agreements. In support of this view, it was stated that the shortage of experts capable of assisting countries wishing to participate in integration schemes was seriously hampering the progress of integration. It was said that many mistakes which occurred during the early stages of an integration scheme could be avoided if advice from experienced experts were available. Account would also have to be taken of the fear of newly independent countries that experts might be biased or linked to certain interests (e.g. shipping lines, petroleum companies). It is stated that the history of regional economic co-operation throughout the world has taught the lesson that this co-operation depends much on the quality, devotion and independence from national instructions of the teams entrusted with its promotion at the working level. Training of such teams is thus regarded to be essential.

FORM No. 75
(2-60)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

INTERNATIONAL DEVELOPMENT ASSOCIATION

ROUTING SLIP

Date: October 20, 1966

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Mr. Friedman	1823

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REMARKS

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TRADE AND DEVELOPMENT BOARD
Committee on Invisibles and Financing
related to Trade
Second Session
Geneva, 21 November 1966

CONSIDERATION OF THE SCHEME FOR SUPPLEMENTARY FINANCIAL MEASURES CONTAINED IN THE REPORT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Note by the Secretary-General of UNCTAD

In connexion with the study by the proposed Intergovernmental Group of the scheme for supplementary financial measures, the following questions have been prepared on the basis of the report of the Committee on Invisibles and Financing related to Trade on its resumed first session (TD/B/73) and its annexes, as well as of the Bank Study on supplementary financial measures (TD/B/43). The questions have been organized under the headings contained in the terms of reference of the proposed Group (TD/B/73, Annex A(i)). The staff of the World Bank is engaged in a study of the issues raised in the Committee, in preparation for the meeting of the Intergovernmental Group, should the establishment of this body be approved by the Board.

1. Questions affecting the scope of the scheme, including the treatment of overages and the regard to be paid to import prices.

(a) Is the primary objective of supplementary finance to avoid disruption of development programmes?

(b) Should a *prima facie* case for assistance under the scheme be established on the basis of an adverse movement in export proceeds in real as well as in money terms?

(c) What arrangement would be appropriate in respect of a country which experiences an excess of exports (overage) over projected estimates?

(d) Should such overages be earmarked for offsetting shortfalls?

(e) Are there circumstances in which overages might be used for other purposes?

2. <u>The form, terms and conditions for the provision of financial assistance to countries participating in the scheme</u>.

(a) How could it be ensured that supplementary finance would be timely and certain?

(b) Should the terms of supplementary finance be similar to those being applied to basic development finance by the various international lending agencies?

(c) Should the administering Agency tailor the terms and conditions of supplementary finance to the over-all financial and economic position of the country concerned?

(d) In what way would the debt service position of developing countries be taken into account in the determination of the terms and conditions of supplementary finance?

(e) What would be the most desirable length of maturity for loans provided by the Agency, keeping in mind the need for reconstitution of its resources?

(f) Should the Agency have the right in certain circumstances to request payment from participating countries earlier than originally stipulated?

(g) Should all feasible domestic adjustments be made which would not disrupt development programmes?

(h) Should such adjustments include "not encouraging continued investment and output in export sectors when world demand is falling, re-examining and adjusting some public expenditures to ensure the postponement of the relatively less urgent or less important, or altering the tax structure to the changed conditions"?1/

(i) If a reduction in planned investment in the export sector is indicated by structural change in world demand or supply, should correspondingly larger investments be made in diversifying the rest of the economy?

(j) Would the scheme assist in this diversification?

1/ TD/B/43, p.51

3. Measures for establishing a relationship between the resources available and the resources required; in this connexion the Group should examine the implications for the scheme of the hypothesis that resources on the scale suggested in the Bank staff study (taking account of any modifications which the Group may suggest) would be available.

(a) Is it agreed that $300 to $400 million per year would be the amount required to operate the scheme?

(b) To what extent should the ordinary resources of IMF, i.e. gold and credit tranches, be used in addition to the compensatory financing facility prior to utilization of supplementary finance?

(c) If supplementary finance is to be granted only after reasonable use has been made of other sources of finance, how is such reasonable use to be interpreted?

(d) In what circumstances would a country be required to draw down its reserves or utilise credit facilities before receiving assistance?

4. The need to establish a boundary between problems of an economic nature and those which fall within the political sphere in the administration of any scheme.

(a) Assuming that the Agency and the recipient country are to agree upon certain performance requirements, should such requirements be limited to the results achieved by development programmes or should they extend to particular policies whereby such results are obtained?

(b) In what way could a distinction be drawn between technical and political aspects of development programmes?

(c) Which features of a development programme would be the subject of agreement between the Agency and the recipient country?

(d) What provisions would be made for countries without an over-all development plan?

(e) Would it be possible for a country to modify its plan or programme in certain respects without seeking the consent of the Agency?

(f) Would the understanding between the Agency and recipient countries differ in any respect from understandings required by international financial agencies in the provision of basic development finance or short-term balance of payments accommodation?

5. Questions relating to the methodology to be applied in the formulation of the projections and the technical assessment of the policies on which the development plans of individual countries are based, the circumstances which may give rise to a claim on the scheme, and the considerations which the Agency should take into account in dealing with such a claim.

(a) Do the projections of export earnings of the type provided for in the Bank study constitute an acceptable method of determining "reasonable expectations"?

(b) What would be the relationship between calculations of shortfalls by the Bank and the Fund?

(c) Is it possible to determine in advance the extent of the discretion of the Agency in determining whether or not supplementary finance was to be provided in particular cases?

6. The appropriate period of time for which the relevant projections of exports should be established and for which the concomitant obligations of the Agency and the developing country concerned respectively should be assumed.

(a) Should the projections and obligations referred to above conform to the planning period of the countries concerned?

(b) Under what circumstances should export projections be revised?

(c) What minimum period of time should elapse before a revision in projections could be undertaken?

(d) How would such revisions affect the obligations ensuring the implementation of a development programme of the Agency, donor countries and recipient countries?

7. The relationship between supplementary financial measures and other types of economic assistance both multilateral and bilateral, with particular regard to the need to ensure compatibility between them as regards the terms, conditions and criteria on which they are to be provided.

(a) How is co-ordination to be achieved among performance requirements in connexion with bilateral aid programmes, other sources of development assistance, IMF stabilization programmes and the proposed supplementary financial measures?

(b) What would be the relationship between the Fund's compensatory financing facility and the proposed supplementary financial measures?

(c) If a country had resorted to other sources of finance to meet an export shortfall, would the proposed scheme provide assistance if exports had not recovered sufficiently to permit repayment of the previous loans without disruption of the countries development programmes?

8. The comparative effects on economic development of the scheme proposed and of other possible methods which might be employed for the same purpose but with due regard to the primary task laid down in the fifth and sixth paragraphs of the resolution[1] to which the terms of reference of the proposed Group are annexed.

The fifth and sixth paragraphs of the resolution are as follows:

"The Committee on Invisibles and Financing related to Trade:

....

"AGREES that the scheme of supplementary financial measures set out in the study prepared by the staff of the International Bank for Reconstruction and Development ..... should be further studied and elaborated in the light of the discussion of this Committee, as a means of dealing with this question, and therefore

"DECIDES for this purpose, subject to the approval of the Board, to establish under rule 63 of the rules of procedure of the Committee a small group of representatives of governments, with the requisite expertise, consisting of 13 to 15[2] members, to study and report on this matter to the second session of the Committee, with the terms of reference set out in the annex to this resolution."

....

1/ TD/B/73, Annex A(i)

2/ Argentina, Brazil, Ceylon, Federal Republic of Germany, France, Ghana, India, Japan, Sweden, United Arab Republic, United Kingdom of Great Britain and Northern Ireland, United States of America, Yugoslavia. If one or two members of Group D wish to join, their countries would be added to the list of members.

9. The status, membership and function of the Agency and its relations with other international bodies, having regard to paragraphs 7 and 8 of part A of recommendation A.IV.16.

Paragraphs 7 and 8 of the recommendation are as follows:

"7. Once a prima facie case has been established there should be an examination, under the International Development Association, of all relevant circumstances (see Note 3)*/ in order to assess how far assistance from the scheme would be required and justified in order to help avoid disruption of development programmes. Subject to these points, assistance could cover a substantial proportion of a shortfall from reasonable expectations.

8. Resources from the scheme, which would be administered under the International Development Association, should be in the form of additional commitments, prescribed in advance, for contributions to the Association; all the major Part I member countries of the Association should contribute."

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*/ "Note 3. Among other matters, these would include adverse effects from significant rises in import prices."

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TRADE AND DEVELOPMENT BOARD
Committee on Invisibles and
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Intergovernmental Group on
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Geneva, 10 October 1966

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TD/B/C.3/AC.3/Misc.1/Rev.1

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Adviser:	Mr. Edward C. FEI Deputy Representative to the Development Assistance Committee Delegation to OECD

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	M. C. BEAURAIN Administrateur Civil au Ministère de l'Economie et des Finances

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Alternate representative:	Mr. J.M.K. KPAKPAH Commercial attaché Permanent Mission, Geneva
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Alternate representative:	Mr. Saïd Talaat HARB Commercial Counsellor Permanent Mission, Geneva
Adviser:	Mr. Mohamed I. SHAKER Second Secretary Permanent Mission, Geneva

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A Comparison of IMF Scheme for Compensatory Finance and IBRD Proposals on Supplementary Financial Measures

(References to the text in the case of IMF Scheme are to the Second IMF Report on Compensatory Financing of Export Fluctuations; those in the case of IBRD proposals are to the IBRD Staff Study, "Supplementary Financial Measures").

	IMF Scheme	IBRD Proposals
1. Objective of the Scheme	1. The IMF scheme seeks to offset the adverse effects on balance of payments of "members, particularly primary exporters" brought about by temporary export shortfalls which are "largely attributable to circumstances beyond the control of the member" (p.41).	1. The IBRD scheme is expected to provide long-term assistance to developing countries in the event of unexpected export shortfalls from reasonable expectations. The scheme is designed to help developing countries overcome the problems of unexpected export shortfalls that "result in disruption of sound development programmes" (p.1).
2. Measurement of shortfall	2. To measure temporary shortfalls in exports, the IMF in conjunction with the member concerned, will seek "to establish reasonable estimates regarding the medium term trend of the member's exports based partly on statistical calculations and partly on appraisal of export prospects" (p.41). The medium term trend value for any given year is defined as "the average of actual exports for five years beginning two years before and ending two years after the year for which the trend value was calculated" (p.5).	2. In the IBRD proposals, the Agency's initial understanding with the member will include an agreement on export expectations "spelled out in the form of a precise projection" which is an integral part of a development programme. Export projections will be based "on the analysis of major export commodities" (p.30) and projections will cover both merchandise exports as well as, where appropriate, invisible items (p.8). Reasonable expectations are thus established prior to the shortfall rather than export. No judgement regarding the short-term

character or persistency of shortfall is required. The duration of the export forecast would be "synchronized with the appropriate time-horizon of planning in the member country normally within a range of four to six years" (p.9). Since the forecast is an essential part of the development programme it should be subject to revision only as part of a total recasting of development programme. A shortfall which is eligible for financing under the scheme emerges if actual exports in a given period are less than the projected exports while the member has been effectively implementing the Policy Package which it initially agreed with the Agency.

3. Conditionality

3. Under the compensatory finance scheme, the IMF will finance an export shortfall measured as stated above only if "it is largely attributed to circumstances beyond the control of the member" (p.30) and also that "the member will co-operate with the Fund" in an effort to find, where required, appropriate solutions for its balance of payments difficulties" (p.40). The Fund states that in interpreting the last condition in the past, "it has not attempted to reach agreement with the member on what the nature of these solutions would have to be". "This has been left to subsequent discussions, and has not stood in the way of prompt action on requests for compensatory drawings" (p.16). Of course, the Fund scheme is intended to finance only short term export shortfalls. However, the definition of the medium term trend itself tends to ensure that any departures from it are of temporary duration so that every shortfall so determined is of temporary duration.

3. The IBRD scheme assumes that the export shortfall as determined above would be considered to be due to factors beyond control only if the member was effectively implementing the understanding with regard to development policies and programmes initially arrived at in agreement with the Agency. As long as the country is following these agreed policies all unexpected shortfalls would be interpreted as being beyond the country's control and the Agency would be under the obligation to provide adequate financing in order to save an agreed development programme from disruption.

4. Relation of Financing to Shortfalls	4. Export shortfalls which are considered to be of a temprrary duration and are due to factors beyond control can be fully financed by the IMF scheme subject to the following provisions: "Drawings outstanding ... may amount to 50 per cent of the member's quota provided that (i) except in the case of shortfalls resulting from disasters or major emergencies, such drawings will not be increased by a net amount of more than 25 per cent of the member's quota in any 12-month period, and (ii) requests for drawings which would increase the drawings outstanding beyond 25 per cent of the member's quota will be met only if the Fund is satisfied that the member has been co-operating with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties" (p.30)	4. The amount of financing provided under the scheme would be in most cases less than the amount of export shortfall in accordance with prior understanding between the member and the Agency, by deducting (a) accumulated overages; (b) other drawings on a member's own reserves, where feasible; (c) use of the IMF compensatory financing facility, or other credit or grant facilities, if available, and (d) that portion of the shortfall that could be absorbed by the country without disruption of the development effort" (p.66)
5. Terms of lending	5. The assistance from the IMF is in the nature of short and medium term help to be repayable in 3 to 5 years. In addition, the Fund now recommends that "as soon as possible after the end of each of the four years following a drawing, the member repurchase an amount of the Fund's holdings of the member's currency approximately equal to one half of the amount by which the member's exports exceed the medium term trend of its exports" (p.31)	5. Assistance from the Scheme, in a given projection period will be in the nature of a long term debt. However, the scheme also provides that to the extent that shortfalls materializing in the initial phase of the projection were offset by the scheme, the member would have to reimburse the Agency if initial shortfalls were followed by overages during the same projection period (p.41). It is proposed

Refinancing of Fund loans under the scheme is possible in that whenever the fund's holdings of a member's currency resulting from an outstanding compensatory drawing are reduced by the member's repurchase or otherwise, this will restore pro tanto the member's facility to make a further compensatory drawing, should the need arise" (p. 41)

that the Agency should "base the terms of its finance - the rate of interest as well as maturity - on the overall financial and economic position of the member" (p. 59). The scheme allows for the possibility that "the terms of finance should be geared to the debt servicing capacity of the member country as well as other relevant factors" (p. 59). Although the terms would vary from case to case, the scheme should be prepared to extend funds on concessional terms in many countries (p. 60). "By and large, it may prove reasonable to extend assistance under the scheme on about the same terms at which the country is obtaining development finance for other purposes" (p. 60)

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Summary of Discussion of Item 1 of Document TD/B/C.3/25

1. Questions affecting the scope of the scheme, including the treatment of overages and the regard to be paid to import prices

General scope of the Scheme

(a) As described in the study by the staff of the World Bank[1] the objective of the Scheme "is that of preventing the disruption of sound development programmes or policies by unexpected shortfalls in export earnings which are of a nature or duration which cannot adequately be dealt with by short-term balance of payments support". (p.2).

(b) Export receipts are defined by the Bank staff study "to include merchandise and, where appropriate, invisible items" (pp. 8-9). The question was raised whether receipts from exports of manufactures should be included, and whether the statistics on invisible earnings were sufficiently reliable to be included in total export receipts.

(c) It was suggested that the Scheme might be formulated so as to take into account the effects on a development programme of a situation in which, although the value of exports did not fall short of reasonable expectations, this occurred only because of a rise in export volume offsetting a fall in export prices. It was pointed out that such an increase in export volume involved the use of real resources possibly at the expense of resources needed for other development purposes.

1/ IBRD, Supplementary Financial Measures, December 1965, TD/B/43. Page references in parenthesis refer to this study.

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(d) Two views were expressed regarding the causes of disruption to be taken into account. On one view, the Scheme should include only those causes of disruption specified in recommendation A.IV.18 of the first UNCTAD. A broader interpretation, however, would provide for the inclusion of other causes of disruption, such as crop failures or other unforeseen circumstances leading to increases in import expenditures. More information concerning the causes of shortfalls in export receipts, other causes of disruption and the mechanism of disruption might be provided by further study.2/

Import prices

(a) Adverse effects on a development programme of significant rises in import prices, particularly the import prices of capital goods, might be taken into account in calculating shortfalls, or in determining the amount of supplementary finance to be provided by the Agency.3/

(b) There are statistical problems in obtaining reliable information about import prices.

(c) Assuming such problems could be overcome, one way of taking import prices into account would be to compare expected export earnings adjusted by expected import prices with actual export earnings adjusted by actual import prices.

(d) A rise in import prices may lead to an increase in the import content of a given value of exports, thus reducing the value of net exports. The purchasing power of net foreign exchange receipts would also be reduced by a rise in import prices.

Overages

(a) The Scheme requires that member countries use overages and other sources of finance before receiving supplementary finance (p.41). This is necessary not only to reduce the total cost of the Scheme but also to ensure symmetry between the responsibilities of all participants in the Scheme.

2/ A study of the causes, frequency and magnitude of various disruptive factors was suggested during the Group's discussion.

3/ See Annex A.IV.18, part A; Section II and Note 3.

(b) Overages would therefore have to be secured or accounted for in some manner which would make it possible for them to be offset against shortfalls in accordance with the Scheme.

(c) There are statistical problems in the estimation of overages, including problems of export valuation.

(d) Deliberate withholding of commodity exports during a period of unfavourable market conditions followed by enlarged sales subsequently at better prices might result in overages in particular years. It was suggested that successful marketing strategy of this type should not necessarily limit a country's potential access to supplementary finance.

(e) While the offsetting of overages against shortfalls may be necessary to reduce the total cost of the Scheme, the question arises whether there are other legitimate uses of overages, such as reconstitution of reserves, maintenance of essential imports, and service of debt. In particular, the question was raised whether, if overages occurred in the early years of a planning period, they might not be legitimately used for the financing of imports consistent with the agreed development programme. Such use of overages might form part of the prior agreement between the Agency and the participating Government.

(f) The Bank staff study recommends that overages should "not be transferred from the accounts of one projection period to the next" (p.42). The question was raised whether such a transfer might be effected in whole or in part. It was pointed out that the recommendation of the Bank staff study was meant to be a stimulus to increased exports from participating members.

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Summary of Discussion of Item 4 of Document TD/B/C.3/25

4. The need to establish a boundary between problems of an economic nature and those which fall within the political sphere in the administration of any scheme

a. The World Bank Scheme provides that before the beginning of the plan period during which a member would have assurance in case of an export shortfall, the Agency and the member government would agree on a development programme and policies and related issues: that is, there would be agreement on a "policy package" through which the targets on resource mobilization and utilization would be implemented. (p.9).

b. The need to avoid infringing upon the national sovereignty of members countries is fully recognized. At the same time the modern world economy is highly interdependent and freedom of action in the economic field is not absolute. Countries desiring external finance, whether basic or supplementary would therefore expect to reach agreement on certain aspects of their development programmes with those undertaking to provide such finance. Where existing practice already provides for agreements in connexion with the provision of basic finance, the task of the Agency would be facilitated since the Agency's requirements would be fully consistent with these agreements.

c. It was suggested that the basic objectives of a development plan lie outside the responsibility of the Agency. There was therefore a need to delimit the area of responsibility of the Agency to the export sector and factors affecting the performance of that sector.

d. The Scheme provides that a member would qualify for assistance as long as its agreement with the Agency on development policies was being carried out. (p.12). It was agreed that on the basis of this criterion, a country would be eligible for supplementary finance as long as it followed agreed policies, even if the objectives of the plan were not actually achieved.

e. The proposed scheme foresees a need for consultation between the Agency and a member country when an unexpected export shortfall results in a need for finance from the Agency (p.10). Although consultation would be necessary to determine that other available sources of finance were being used, and that feasible adjustments not endangering the development programme were being made, it was agreed that this would not prejudice the certainty or speed of availability of needed assistance, particularly since regular periodic consultations between the Agency and its members would be taking place in the normal course of events.

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Summary of Discussion of Items 5 and 6 of Document TD/B/C.3/25

5. Questions relating to the methodology to be applied in the formulation of the projections and the technical assessment of the policies on which the development plans of individual countries are based, the circumstances which may give rise to a claim on the scheme, and the circumstances which the Agency should take into account in dealing with such a claim

The Need for Export Projections

a. The drawing up of any development plan necessarily involves taking a view of export prospects, especially since projected expenditures under a plan imply the need for a certain level of imports which can be financed out of the foreign exchange that is expected to become available. Unexpected export shortfalls are therefore apt to prejudice the achievement of the plan. Since the Scheme is designed to deal with "shortfalls from reasonable expectations" (p.28), some quantification of "reasonable expectations" is indispensable.

b. The fear was expressed that because of the inherent uncertainty of the future and unreliability of data, projections of exports may be wide of the mark.

c. It was suggested on the other hand that while the fact of uncertainty about the future and its effects on the accuracy of projection must be recognized, that very uncertainty was the cause of unexpected export shortfalls and hence a major justification for the Scheme. Moreover some projection errors may tend to cancel out over a period of time.

Methodology of Projections

a. The Scheme proposes that export projections would be based on an analysis of market conditions for major export commodities. Apart from an analysis of factors influencing the evolution of demand and supply, account would be taken of the probable effects on exports of any new policies that a country might adopt to alter the existing export trend.

b. In the administration of its compensatory financing scheme, the IMF uses the concept of medium term trend value for a year as a basis for calculating short-term export shortfalls. The medium term trend value for any given year is defined as the average of actual exports beginning two years before and ending two years after the year for which the trend value is calculated. To arrive at this value, the Fund uses both regression analysis of pact data as well as qualitative analysis of export prospects for the two succeeding years, based primarily on market appraisal of the type mentioned in the World Bank scheme. Thus the IMF concept of the medium term trend value is not the same as that implied in the World Bank definition of "reasonable expectations".

d. However, it was suggested that insofar as the IMF relies partly on an analysis of export prospects for the two succeeding years to arrive at its estimate of the medium term trend value, its experience in making export projections should be utilized in evolving a suitable method of export projections for the Scheme. It was therefore considered advisable for the World Bank and the IMF to pool their experience in an attempt to evolve an agreed methodology.

6. The appropriate period of time for which the relevant projections of exports should be established and for which the concomitant obligations of the Agency and the developing country concerned respectively should be assumed

a. The question was raised whether projections over an extended period could be relied upon for determining financial obligations under the Scheme, particularly since the financial resources available were likely to be limited.

b. On the other hand, it was pointed out that if the Scheme were to succeed in its stated objective, export projections would have to be made for a period coinciding with the time-horizons of the respective development plans, which were usually drawn up for periods of four to six years.

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Summary of Discussion of Item 2 (Adjustment) of Document TD/B/C.3/25

2. The forms, terms and conditions for the provision of financial assistance to countries participating in the Scheme

(a) It was recognized that receipt of supplementary finance would not eliminate the need for adjustments to a short-fall in export earnings. While it would be difficult to foresee every situation that might arise, it was agreed that adjustments undertaken should be consistent with the overall objectives of the development programme in question.

(b) Where a short-fall in export earnings reflects a major structural change in the market prospects of an export product, the measures of adjustment should facilitate adaptation to that change, if necessary by providing for diversification. Depending on the seriousness of the change it might, or might not, be desirable to revise the development plan itself. Whether a short-fall requires a relatively minor modification of current economic and financial policies or a revision in the development plan, the previously agreed level of foreign exchange receipts should be maintained. Resources would not, of course, continue to be channelled to export activities affected by structural shifts in demand, but would become available for diversification.

(c) It was suggested that the nature of adjustments which might be required as a condition for receipt of supplementary finance should be the subject of prior agreement and should apply to the export sector and not to the development programme as a whole.

(d) It was further suggested that abrupt revisions of development programmes should not be imposed as a condition for receiving supplementary finance. It was pointed out that the regular consultations envisaged in the scheme would provide timely and adequate opportunities for any necessary modifications of development programmes and policies.

(e) The IMF is the responsible agency in matters of adjustment arising from balance of payments difficulties. Close co-operation between the Fund and the Agency would therefore be necessary in providing for measures of adjustment to be adopted in connexion with the utilization of supplementary finance.

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Summary of Discussion of Item 2 (Terms and Conditions of Assistance) of Document TD/B/C.3/25

2. The forms, terms and conditions for the provision of financial assistance to countries participating in the Scheme

a. The Scheme lays down that the terms and conditions of assistance from the Agency would be similar to those for basic development finance. This implies that they would be tailored to the conditions prevailing in each country in the same way as basic development finance provided by the World Bank Group (including IDA). Although the terms would vary from case to case, the Agency would be prepared to extend funds on concessional terms in many countries (p.60).

b. A suggestion was made that the average terms of basic development finance should not be taken to mean the average terms of the existing outstanding debt since these terms may be heavily influenced by the past, rather than the present economic situation of the country. It was, therefore, suggested that the terms and conditions of assistance under the Scheme should approximate those applicable to current basic finance.

c. One view was that terms and conditions should be tailored to reflect the specific conditions prevailing in each country. An opposite view was that the objective and nature of the scheme were such as to justify shorter repayment periods than those applying to long-term development finance. It was, however, pointed out that this would be inconsistent with the UNCTAD recommendation A.IV.18, which specifically called for longer term assistance.

d. Under the Scheme, the Agency would have the right to request repayment earlier than originally stipulated, in the event that the resource and foreign exchange position

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of the debtor country improved so substantially over time that it could afford to repay its debt to the Agency before maturity, without affecting its attainable rate of growth (p. 60). It was suggested that the above provision was unduly stringent, especially if it were intended to use the occasion of export improvement in one planning period to repay loans obtained to offset shortfalls in a previous period.

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TD/B/C.3/AC.3/Conf.Room Paper/7
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related to Trade
Intergovernmental Group on
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Summary of Discussion of Item 7
of Document TD/B/C.3/25

7. The relationship between supplementary financial measures and other types of economic assistance both multilateral and bilateral with particular regard to the need to ensure compatibility between them as regards the terms, conditions and criteria on which they are to be provided.

a) Both the compensatory financing facility of the Fund and the proposed Supplementary Financing Scheme are designed to deal with shortfalls in export proceeds. However, while the Fund's compensatory financing facility is designed to compensate for fluctuations about a medium-term trend, the Supplementary Financing Scheme would compensate for shortfalls from reasonable expectations of export proceeds so as to avoid disruption of development programmes. Since the two types of shortfall may be closely interrelated, intimate cooperation between the Fund and the Agency would clearly be required.

b) Where there is uncertainty as to the nature of a shortfall at the time of its occurrence, it would be natural to have recourse to the Fund's compensatory financing facility in the first instance. Persistence of the shortfall would then indicate the need for supplementary financing in addition. Where, however, it is clear from the outset that the shortfall is of a persistent nature, immediate access to supplementary financing would be appropriate.

c) In some instances, it might be appropriate for a country to draw upon its ordinary credit facilities in the Fund or upon its reserves before obtaining assistance from the Supplementary Financing Scheme. In such a case, however, it was considered that the

Fund's views on the reserve needs of the country concerned should prevail. Moreover, the supplementary financing could not necessarily be regarded as the residual element. Where a country draws on Fund resources as well as on the Supplementary Financing Agency, residual financing would be a joint function of the two institutions.

d) It was suggested that a country should not have to go beyond the utilization of the compensatory financing facility and the gold and first credit tranches of the Fund before qualifying for supplementary financing.

e) Attention was drawn to a certain dualism in the Bank staff's supplementary financing proposal. It was normally considered appropriate to draw upon reserves or use the compensatory financing facility of the Fund only for short-term purposes. In the Bank staff proposal, however, it was suggested that they be utilized to deal with an export shortfall of a persistent character requiring long-term financing under the Scheme. It was doubtful whether a country should be called upon to borrow short for long-term purposes. On the other hand, it was suggested that at the time an export shortfall occurred, it would often be impossible to tell whether the cause was of a short-term or of a persistent character.

f) The question was raised as to whether the supplementary financing scheme could be used to refinance short-term borrowings, notably from the Fund. It was agreed that this matter should be given further consideration. It was, however, pointed out that where a country entered a planning period with Fund borrowings outstanding from the previous period, the finance plan would reflect that fact, and the provision of basic finance would be adjusted accordingly.

g) The World Bank study implies that resources provided for the Scheme would be additional to those available for basic development finance. Indeed, the Scheme rests on the assumption that there would be a prior assurance of adequate basic finance throughout the duration of the development plan, stretching usually over a period of four to six years.

h) Concern was expressed that, considering the existing trend of external assistance, resources allocated to supplementary finance might be at the expense of the volume of basic finance. It was also indicated that governments would wish to give priority to the replenishment of IDA and would be able to consider resources for supplementary finance only in the light of the scale terms and conditions of IDA replenishment.

i) Doubts were expressed whether firm prior assurances would be forthcoming not only with regard to the overall volume of finance for the developing countries as a whole, but also for individual countries for periods as long as four to six years.

j) The Scheme assumes that in granting assistance to a member, the Agency would also take into account the possibilities of using other sources for offsetting shortfalls, for example, the emergency foreign trade loans of the United States Export-Import Bank, the programme loans and the Food for Peace Programme of the United States Agency for International Development, the World Food Programme, etc., (p. 8). The authors of the Scheme did not, however, intend that the Agency would insist on recourse to particular bilateral sources of help before granting assistance. The intention was that agreement on other possible sources of help to be tapped in the event of an export shortfall would emerge in the course of periodic consultations between the Member and the Agency.

k) The question was raised as to what would be the attitude of the Agency towards help from other sources if such credit was available only at higher interest rates or had a shorter maturity period. It was suggested that the Agency, following existing World Bank practice under its Charter, should provide assistance if help from other sources was not forthcoming at reasonable terms and conditions.

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Changes suggested in Conference Room Papers

1. The following changes in document TD/B/C.3/AC.3/Conf.Room Paper/2 have been suggested by the representative of the United Kingdom:

Import prices

Page 1, paragraph (b)- Add the following at the end of the paragraph:

"Some amplification of the views expressed in the Bank study, that satisfactory import statistics were not available, was suggested. The Bank's views as to the character, country-availability, and reliability of import price figures would be welcome".

Page 1, paragraph (c)- Add the following at the end of the paragraph:

"This is, in effect, a particular way of calculating the gross shortfall. It has the virtue of measuring the import purchasing power of exports, a matter of relevance to development plans. But the 'expected' values must be calculated _ex ante_, which may prove too complex. If that were the case, an alternative which might be adopted would be to consider import prices _ex post_, when a country was applying for supplementary finance in the event of a shortfall already experienced".

Overages

Page 3, paragraph (e)- Add the following after the second sentence:

"This question was prompted by a point made, that it might be hard for a country to forego the use of overages in early years if it had experienced in

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those years difficulties other than export shortfalls disruptive of development programmes."

2. The following changes have been suggested to document TD/B/C.3/AC.3/Conf.Room Paper/4 by the representative of the International Monetary Fund:

Methodology of Projections

Page 2, paragraph (b), line 6:

Replace "with regression analysis of past data" by "statistical formulae in which weights are assigned to the current and two previous years".

Replace "qualitative analysis" by "direct forecasting".

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Changes suggested in Conference Room Papers

TD/B/C.3/AC.3/Conf.Room Paper/2

Addition suggested by the representative of France:

Page 2, add the following paragraph (e) to the section on General Scope of the Scheme:

"(e) Some delegations however think that such an interpretation as expressed in (c) and (d) would go beyond the UNCTAD Recommendation A.IV.18."

TD/B/C.3/AC.3/Conf.Room Paper/3

Change suggested by the representative of the World Bank:

Page 2, paragraph (d), line 4:

Substitute "targets" for "objectives".

TD/B/C.3/AC.3/Conf.Room Paper/4

Change suggested by the representative of the Federal Republic of Germany:

Page 1, paragraph (b); add the following sentence to the end of the paragraph:

"Therefore, it was suggested that export projections be used solely as a certain guidance for development planning but not as an agreed basis for the calculation of export shortfalls for the purpose of the Scheme. Instead, it should be possible to identify export shortfalls at the time when they materialize, taking into account export performance in the current year and in the preceding periods."

TD/B/C.3/AC.3/Conf.Room Paper/4 (continued)

Change suggested by the representative of the United Kingdom:

Page 2, add the following paragraph (c) to Section 6:

"(c) There was some discussion of the possibility of a radical change in demand conditions for a given export commodity arising, for example, from the development of a new synthetic. The view was expressed that even if export expectations had been agreed with the Agency, a radical change might call for revision, but this view was criticised on the grounds that this was the kind of risk against which the Scheme was designed to insure. It was also pointed out that the long-term prospects for commodities do not alter radically with great speed; development of a synthetic may gradually erode, but will not suddenly remove, the market for a commodity."

Change suggested by the representative of the United States of America:

Page 2, paragraph (b) of section on Methodology of Projections:

Line 1: insert "now" after "IMF"

Line 2: delete "concept of" before "medium term"
substitute "for the year" for "for a year"
delete "as a basis"
insert "which" before "calculating"
delete "calculating"

Line 3: insert "are calculated" after "shortfalls"
delete "for any given year"
add "annual" at the end of the line

Line 4: delete "actual" before "exports"
delete "beginning" and insert "for the" before "two years"
delete "ending two years after"

Line 5: insert "and forecasts for the two following (future years)" after "calculated"

Line 10: add new sentence at end "But the methods used by the Fund to forecast exports for two future years are similar to those used by the Bank to forecast exports for a planning period."

TD/B/C.3/AC.3/Conf.Room Paper/4 (continued)

Changes suggested by the representative of the United States of America (contined):

Page 2, paragraph (d) of Section on Methodology of Projections:

Lines 1 - 4: delete first sentence

Line 4: delete "therefore"

Line 5: delete "an"

Line 6: delete "attempt to evolve an agreed methodology"
add "forecasting exports"

Page 2, paragraph (b) of Summary of Item 6:

Line 3: delete "the respective"

Change suggested by the representative of the World Bank:

Page 2, paragraph (d) of Section on Methodology of Projections"- substitute the following for last sentence:

"It was also pointed out that the World Bank has had extensive experience over many years in making export projections directly based on commodity studies. Both institutions are, therefore, now utilizing the same methodological approach and it is expected that the Supplementary Financing Agency would take full advantage of the work of the two institutions in this field."

TD/B/C.3/AC.3/Conf.Room Paper/5

Change suggested by the representative of Japan:

Page 1, paragraph (c), line 1:

Insert "by some members" after "suggested"

Change suggested by the representative of the United Kingdom:

Page 1, paragraph (b):

Lines 3 - 4: delete "if necessary by providing for diversification"

Line 5: insert "if necessary by providing for diversification" after "itself"

Line 8: delete "should be maintained"

insert after "receipts" - "needed to carry out the development plan (in its original agreed form or as subsequently revised by agreement between the country and the Agency) should be maintained."

TD/B/C.3/AC.3/Conf.Room.Paper/6

Change suggested by the representative of France:

Page 1, paragraph (c), line 4:

add the following after "finance":

"in the case of improving export projections or limited indebtedness of the country."

Change suggested by the representative of the United Kingdom:

Page 1, paragraph (a), lines 3 - 6:

Substitute:

"It would be necessary to arrive at a judgement on the terms appropriate for each country. The view was expressed that the Consultative Groups and the experience of the World Bank Group might provide a guide."

For:

"..... in the same way as basic development finance provided by the World Bank Group (including IDA)."

Page 1, paragraph (a), add the following sentence to the end of the paragraph:

"If it were not possible to devise a system of tailor-made terms, either some system of banding might be used (based, e.g. on income per head and balance of payments prospects), or the "DAC norm" (25 years maturity, 7 years grace period, 3% interest) might be adopted."

Page 1, paragraph (c), lines 1-2:

delete first sentence.

TD/B/C.3/AC.3/Conf.Room Paper/7

Change suggested by the representative of France:

Page 2, paragraph (e), lines 2 - 3:

delete "draw upon reserves or"

Changes suggested by the representative of the United Kingdom:

Page 1, paragraph (b), line 3:

Insert the following sentence after "... instance."

"The view was expressed that this would be the normal case."

Page 2, paragraph (g):

Add the following sentence at the end of the paragraph:

"The view was expressed that close collaboration between the Agency and e.g. consortia or consultative groups would therefore be desirable."

TD/B/C.3/AC.3/Conf.Room Paper/7 (continued)

Changes suggested by the representative of the United Kingdom (continued):

Page 3, paragraph (i):

Add the following sentence at the end of the paragraph:

"It was suggested, however, that this situation already existed, that developing countries had to adapt their plans to it, and that the Scheme was not designed to deal with it."

Changes suggested by the representative of the World Bank:

Page 2, paragraph (e):

Lines 1 - 2: delete first sentence

Lines 3 - 6: substitute the following for the third sentence:

"Under the Bank Staff proposal, however, it may turn out that the IMF facility is in effect utilised to deal with export shortfall of a persistent character which should more appropriately be financed by by long-term funds."

Page 2, paragraph (g), lines 3 - 6:

Substitute:

"indication of the level of basic finance available to support a development plan"

For:

"assurance of adequate basic finance throughout the duration of the development plan."

Page 3, paragraph (j), line 1:

Substitute "suggests" for "assumes"

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TD/B/C.3/AC.3/Conf.Room Paper/3

Changes suggested by the representative of the United Kingdom:

Page 1, paragraph (c):

Add the following sentence to the end of the paragraph:

"A different view was also put forward, that the Agency, without prejudice to the objectives of a development plan, could properly seek to reach agreement by consultation with the developing country on the feasibility of its proposed plan; and that, although interest would be concentrated on export performance, questions of domestic policy might be relevant to this."

Page 2, paragraph (d), line 2:

Add the following after "..... out (p. 12),":

"and it could be shown that the export shortfall was beyond the country's control."

Page 2, paragraph (e):

Add the following sentence to the end of the paragraph:

"The point was also made that what constituted 'feasible' adjustments could not be determined in advance of the experience which made them necessary; the satisfactory determination of feasible adjustments would depend on confidence being established between the Agency and member countries."

Change suggested by the representative of the United States of America:

Page 2, add the following paragraph (f):

"(f) There were questions about the number of countries whose development planning, comprehensive or partial, would be sufficiently advanced to make them eligible for membership in the Scheme."

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Changes suggested in Conference Room Papers

Changes suggested by the representatives of countries in Groups A and C

TD/B/C.3/AC.3/Conf.Room Paper/2

Page 1, paragraph (a), line 2:

delete "sound"

Page 1, paragraph (b), add the following sentence to the end of the paragraph:

"It was pointed out that exports of merchandise include those of manufactures and should therefore come within the scope of the scheme."

Page 1, paragraph (c)

Line 1: substitute "may" for "might"

Page 1, paragraph (c):

Add the following sentence at the end of the paragraph:

"It should be considered if in such a situation a country would qualify for supplementary financial assistance."

Page 2, paragraph (d) of the section General Scope of the Scheme:

Line 5: insert "though related" after "inclusion of other".

Line 9: substitute "may" for "might"

Add the following at the end of the paragraph:

"and it should be considered as to which ones should qualify for assistance under the Scheme."

Page 2, paragraph (a) of the section on Import Prices:

Line 1: substitute "Disruptive" for "Adverse"

Line 2: substitute "may" for "might"

Line 3: substitute "and" for "or"

Page 2, paragraph (b) on section on Import Prices:

Line 1: substitute "Solutions to the" for "There are"

TD/B/C.3/AC.3/Conf.Room Paper/2 (continued)

Line 2: add "should be explored" to the end of the paragraph

Page 2, paragraph (c) of section on Import Prices:

Line 3: substitute "for" for "by"

Line 4: substitute "for" for "by"

Page 2, paragraph (d) of section on Import Prices: exports

Line 2: substitute "net foreign exchange value of" for "value of net exports".

Page 3, paragraph (b):

Line 3: substitute "terms of the criteria of " for "accordance with".

Page 3, paragraph (c):

Line 1: delete "There are"

Line 2: Add "should be considered" at the end of the paragraph

Page 3, paragraph (d):

Line 3: substitute "could" for "might"

Line 4: substitute "such overages resulting from" for "successful"

Page 3, paragraph (e):

Line 2: delete "total"

Line 4: substitute "servicing of foreign debt" for "service of debt."

Line 6: substitute "may" for "might"

Line 8: substitute "should" for "might"

TD/B/C.3/AC.3/Conf.Room Paper/3

Page 1, paragraph (b),

Line 2: insert "it was noted that" after "At the same time"

TD/B/C.3/AC.3/Conf.Room Paper/4

Page 2, paragraph (a):

Line 3: substitute "should" for "would"

TD/B/C.3/AC.3/Conf.Room Paper/5

Page 1, paragraph (b)

Lines
4 - 5: delete "Depending on the seriousness of the change it might, or might not, be desirable to revise the development plan itself."

Page 1, paragraph (c):

Lines
3 - 4: substitute "be centred on the trade policies and related fields" for "apply to the export sector and not to the development programme as a whole."

Page 2, paragraph (d):

Line 1: delete "abrupt"

TD/B/C.3/AC.3/Conf.Room Paper/6

Page 2, paragraph (d):

Line 3: substitute "target" for "attainable"
delete "(p. 60)"

Line 6: Add the following sentence at the end of the paragraph:
"Since recourse to supplementary finance would be sought under conditions of a threat of disruption of a development plan by creating a gap in a country's resources, it is of a marginal character and should, therefore, be on soft terms to avoid an aggravation of the debt-servicing obligations of the country."

TD/B/C.3/AC.3/Conf.Room Paper/7

Page 2, paragraph (d):

Line 1: substitute "pointed out that UNCTAD Recommendation A.IV.IV. stated" for "suggested"

Line 2: delete "and the gold and first credit tranches."

Page 2, paragraph (h):

Line 2: substitute "may" for "might" and "normal flow" for "volume"

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Changes suggested in Conference Room Papers

The following changes in document TD/B/AC.3/Conf.Room Paper 9 (ditto version) have been suggested by the Representative of the United Kingdom :

Page 2, paragraph (d), line 4: delete "major"

Page 3, paragraph (h), line 2; delete "global"; insert "total eligible"

" " line 12; add the following at the end of the paragraph :

"So that the second and third forms of rationing would appear to be less appropriate".

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Changes suggested in Conference Room Papers

TD/B/C.3/AC.3/Conf.Room Paper/4

Change suggested by the representative of the United States of America:

line 10

Page 2., paragraph (b)/, add the following sentence after the additional sentence suggested for this line on page 2 of document TD/B/C.3/AC.3/Conf. Room Paper/8/Add.1:

"The Fund, however, assumes that the average level of exports predicted for the two years following the shortfall year will not exceed by more than 10 percent the average level of exports experienced in the two years preceding the shortfall year and will not be assumed to be less than the level of exports experienced in the shortfall year itself. (p. 8, IMF Second Report on Compensatory Financing)."

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SUPPLEMENTARY FINANCIAL MEASURES

Note by the delegation of the United Kingdom

Discussion of the problems connected with SFM in the CIFT and the Intergovernmental Group has so far been in general terms. The U.K. representatives believe that it may be helpful to show how those problems might arise, and have therefore produced a brief account of how in their view the Scheme might work in practice. These notes may of course require modification in the light of discussions presently taking place, and of further material being prepared by the Bank.

How the Scheme might work

(i) A country would submit to the Agency its proposed development programme covering a period of, say, five years. The plan would set out *inter alia* target rates of growth for GNP and for exports, the latter based on given assumptions about the market for its main products, together with at least the elements set out on page 48 of the Bank Study.

(ii) The development plan would be discussed with the Agency, simultaneously perhaps with discussions in other multilateral meetings with donor countries which would be concerned with the total need for aid.

(iii) The export assumptions would be discussed with the Agency, and, if necessary, adjusted in the light of an agreed evaluation of world market prospects. The agreed projections would then be adopted as the reasonable expectationffor the five-year period.

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(iv) The development plan should now be consistent not only with the agreed export projections, but also with realistic expectations about the availability of domestic and external resources in general, and of foreign aid in particular. The plan should be devised with sufficient flexibility to meet the contingency that some of these latter expectations may not be fulfilled.

(v) The country would achieve an understanding with the Agency as to how much of her other possible sources of finance (reserves, IMF compensatory finance, etc.) she would use annually in the event of a subsequent export shortfall or other balance of payments difficulties. She would indicate the measures to economise foreign exchange she might adopt in these circumstances. The country would also agree in general as to the measures required to ensure the success of her plan.

(vi)(a) If in the first year of the plan the value of her exports were greater than the projected value, it would be noted that the country had experienced an overage and she would neither receive anything from the Scheme nor pay anything to it. The Government would have to ensure that the overage became available to it through e.g. some form of taxation or at any rate take account of the fact that compensation for future shortfalls might be diminished as a result of the overage.

(b) If her exports were less than the projected value, a 'gross shortfall' would be recorded and she would be entitled to supplementary finance from the Scheme after having used the previously agreed amount of alternative finance, and put into effect the agreed measures to economize foreign exchange.

(vii) The Agency, satisfied that the conditions of the Scheme had been met (and assuming its own financial resources to be adequate) would disburse to the country an amount equal to the 'net shortfall' - the gross shortfall minus alternative finance and the result of the agreed economies in foreign exchange.

(viii) In any subsequent year, the net shortfall would be calculated in relation to the gross shortfall, if any, minus alternative finance and accumulated overages, if any. The accounts would be adjusted as necessary, to ensure that the country's total receipts from the Scheme over the whole period were no more than the sum of all her gross shortfalls, minus all alternative finance, all the economies of foreign exchange and all overages. (This might be adjusted by any refinancing of short-term credits that the Agency would be empowered to undertake.) On the other hand, if total overages exceeded total gross shortfalls minus total alternative finance, she should on balance receive and pay nothing. The country would have to bear in mind that the overages experienced during the period would be taken into account as an offset to the shortfalls occurring later during the period.

(ix) At the end of the period the books would be closed and the process would begin again with the country's next plan.

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Summary of Discussion of Item 3
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3. Measures for establishing a relationship between the resources available and the resources required: in this connexion the Group should examine the implications for the scheme of the hypothesis that resources on the scale suggested in the Bank staff study (taking account of any modification which the Group may suggest) would be available.

a. It is clear that governments and parliaments of donor countries cannot be expected to support a scheme with no maximum limit. It was pointed out, however, that just as a maximum limit was a condition for support of the Scheme by donor countries, so would a minimum level of finance be necessary to ensure that the objectives of the Scheme would be achieved. At the same time, a fully reliable estimate of the resources required to operate the proposed Scheme is probably not attainable due to the complexity of factors influencing possible needs for supplementary finance, and the fact that only limited guidance for the future can be obtained from the analysis of past fluctuations.

b. The World Bank staff study estimates the annual requirements of the Scheme at $300 - 400 million. The estimate was derived from estimates of unexpected annual gross shortfalls for the period 1959-63 of about $1.6 billion for all developing countries (p. 70) adjusted for a number of factors tending to reduce the need for recourse to the Scheme. Among these were improvements in export projections; the emphasis on policy performance; the fact that not all developing countries would qualify for assistance; the offsetting of overages against shortfalls; the use of the Fund's compensatory financing facility; the use of other available foreign exchange resources; and feasible internal adjustments that would not disrupt development programmes (pp.70-1).

c. It was considered indispensable that more precise information be made available concerning the manner in which the annual requirements of the Scheme were estimated, including the weight given to the use of overages and of the enlarged IMF compensatory financing facility.

d. It was suggested that the resources available from particular donor countries might be affected by their balance of payments positions, and that the need for supplementary financing might well be greatest at times when major donor countries were themselves in difficulties. The latter consideration might apply with particular force to primary producing donor countries.

e. It was pointed out that possible changes in the requirements of the Scheme might occur as total exports of participating countries increased, making it likely that unexpected shortfalls would increase in magnitude. Some factors which would counter such a tendency were cited: experience gained by the Agency and participating governments in estimating expected export earnings; changes in the composition of exports of developing countries, particularly the likelihood that exports of manufactures and earnings from invisible items would rise as a proportion of total receipts and thus increase their stability. The conclusion of commodity agreements would also contribute to increased stability of export earnings.

f. It was considered that the requirements of the Scheme would build up only gradually due to the time needed to get the Scheme going, and provide for the necessary prior agreements between the Agency and participating members.

g. The goal of 100 percent financing of unexpected export shortfalls of a disruptive nature was felt to be desirable. It was pointed out, however, that such coverage would not be possible if available resources were less than eligible claims. It would therefore be prudent to provide against the possible need to ration the Agency's disbursements. It was suggested, however, that although rationing might be considered as an emergency measure its possible use should not enter into calculations of the resources required for the Scheme.

h. Rationing might take one of the following three forms: (1) a pro rata system whereby a country's share in global shortfalls would determine its share in total disbursements by the Agency. It was recognized that this sytem might encounter difficulties in ascertaining, at a given moment, all the actual and potential shortfalls of a given period; (2) rationing on the basis of needs, as reflected, say, in per capita income; and (3) rationing according to the ability of countries to withstand the disruptive effects of shortfalls, taking account of their reserve positions. It was suggested that any system of rationing should be as automatic in its application as possible. It was also pointed out that there were sufficient elements of flexibility in the Scheme to permit the adjustment of eligible claims to available resources.

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Subject of studies which the Group has requested during his first meeting

1. The relative importance of export shortfalls and other causes of instability in the external financing of development and to the extent possible, estimates of the effects of these causes on selected countries.

2. The Group invites the Bank and the Fund to communicate to the Group any views they may feel able to express on how supplementary finance would fit into the existing international financial system.

3. A revision (to include data as recent as possible) of Table I. "Adequacy of External Liquidity to Finance Fluctuations in Export of Some Fund Members" (page 19) of the study produced in 1963 by the International Monetary Fund "Compensatory Financing of Export Fluctuations".

4. A study of the differences between and the respective merits of the methods used for the determination of export shortfalls.

5. A presentation of the methods used by the Bank staff in arriving at its estimates of the annual cost of the Scheme (in quantitative terms).

6. An estimate of the effects of recent changes in funds' compensatory financing facility on the annual cost of the Scheme.

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Committee on Invisibles and Financing
related to Trade
Intergovernmental Group on Supplementary
Financing
Geneva 10 October 1966

Questions posées par la Délégation Française
du groupe des Experts gouvernementaux sur les mesures de financement
supplémentaire

I - Evaluation des projections d'exportation et constatation des "shortfalls"

La Banque et le Fonds pourraient-ils se mettre d'accord pour appliquer une méthode unique de calcul des "shortfalls" afin d'éviter des doubles emplois coûteux et des contradictions dans les diagnostics et les remèdes ?

La Banque pourrait-elle étudier une méthode de calcul permettant de déduire des "shortfalls" constatés à l'exportation les surplus enregistrés dans le domaine des manufacturés et des invisibles, le mot surplus désignant tout accroissement constaté à partir du niveau atteint lors de l'instauration de la procédure de financement supplémentaire ?

La Banque peut-elle préciser la nature des contrôles que l'Agence pourrait exercer sur les statistiques d'exportations réelles afin d'épargner aux pays donateurs de compenser au profit des pays participants des réductions fictives d'exportations ?

II - Prévisions d'équilibre financier des programmes de développement

De quelles données la Banque estime-t-elle que l'institution de gestion devra disposer - notamment en ce qui concerne les apports financiers extérieurs - pour pouvoir se mettre d'accord avec un pays en voie de développement désireux de participer au mécanisme de financement supplémentaire sur son programme et sa politique ~~de~~ développement pour une période de 3 à 5 ans ?

III - Notion d'excédent et compensation éventuelle des "shortfalls"

La notion d'excédent étant une notion statistique et celle du financement supplémentaire une notion comptable ou financière, l'Agence ne sera-t-elle pas amenée en fait à remplacer le principe de la déduction des excédents par une surveillance minutieuse de la gestion des réserves de devises et de la politique d'importation des bénéficiaires ?

IV - Incidence des "shortfalls" sur les plans de développement

Un "shortfall" n'ayant pas nécessairement d'effet sur le financement du plan de développement d'un pays, notamment dans le cas où le financement de base est assuré par ailleurs, tant par des crédits étrangers que par l'épargne publique ou privée nationale, la Banque pourrait-elle préciser les modalités du calcul que l'Agence appliquerait pour déterminer le montant du financement supplémentaire à accorder ?

Lorsque l'Agence constatera que le plan de développement est mis en échec tant par un shortfall des exportations que par une carence des financements de base interne ou externe ou par tout autre difficulté d'ordre politique ou technique, comment pourra-t-elle déterminer la part du retard imputable au shortfall et par suite calculer le montant du financement supplémentaire à accorder ?

La BIRD préconisant l'admission au système de pays en voie de développement dotés de plans incomplets, comment envisage-t-elle, en ce cas, de mesurer la désorganisation d'un Plan, par définition partiel, du fait de l'apparition d'un shortfall ?

V - Coût probable du mécanisme

La Banque pourrait-elle expliquer comment elle a ramené le coût annuel du mécanisme de 1,6 à 0,4 millions de dollars et plus spécialement préciser si ce chiffre de 0,4 doit être considéré comme correspondant à un rythme de croisière ou seulement à un rythme de démarrage ?

VI - Condition des prêts

De quels principes s'inspirera l'Agence pour fixer les conditions dont seront assortis les prêts accordés au titre du Financement supplémentaire ?

Mr. Friedman
Comments p. 5, 7, 16, 17

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STATEMENT BY MR. RAUL PREBISCH, SECRETARY-GENERAL OF THE UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT, AT THE NINETY-THIRD PLENARY MEETING OF THE TRADE AND DEVELOPMENT BOARD ON 31 AUGUST 1966

Mr. President, distinguished representatives and observers, and my good friend and colleague Philippe de Seynes.

I am most grateful to you, Mr. President, for calling upon me this morning to introduce the secretariat's first Review of the implementation of the recommendations of the First Conference. I do not think it desirable that I should take up the Board's time by commenting on the report. I would like rather to take this opportunity of saying a few words about past events and also to turn my mind towards the immediate future, namely, the preparations for the Second Conference on Trade and Development.

The figures presented in the report give no grounds for complacency. What we were pleased to call, with high hopes, the Development Decade, is taking on more and more the familiar look of illusions which are soon to be shattered. The average growth rate - 4 per cent - recorded by the developing countries during the 1960-1964 period is still very far from the 5 per cent minimum fixed as the target of the Development Decade. I believe that it is of the utmost importance to consider why this policy which had begun to take shape has not borne the fruit that was expected. To use the word policy is something of an over-statement, because I wonder, in view of developments, whether there really was a world development policy, whether there really ever was a series of properly interrelated measures reflecting the highly complex reality of a world in the process of development and at the same time taking into account the magnitude of the problems to be solved.

To - Johnson - please summarize highlights - for possible transmission to Pres., Woods
ISF

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In saying this I do not mean to deny that a series of measures - many of them very sound and in part effective - have been taken; but they are far from providing a complete answer to an economic and social situation which is essentially different from that which had to be faced during the growth of capitalism by the countries which have now reached an advanced stage of economic development. The phenomena we are facing today are new both in kind and in degree, and it is useless to look for historical parallels. There are, of course, certain similarities; but the nature of the problems to be solved today in the economic and social development of the peripheral countries is fundamentally different from those which faced the great industrial countries as they evolved. These phenomena reflect, essentially, the complexity of the process whereby modern scientific and technological advances are making headway in the developing world. We are witnessing the transplantation of a highly sophisticated technology, which requires an extremely high capital investment per unit of manpower in order to save labour, into countries where manpower is relatively abundant but the capacity for capital formation is very low. This is creating the extremely serious problem of inability of the advanced sectors of the economy to absorb manpower productively. I have drawn attention to this problem on many occasions, and I believe that we must be prepared to see it get worse rather than better unless there is a fundamental change in policy.

While the developing countries are faced with this contradiction between modern technology and their ability to assimilate it, the problem of the dynamic weakness of the developing countries is aggravated by other consequences of technical progress: is not the rising growth rate of the population in the peripheral countries likewise a consequence of scientific and technical progress? At the same time, we find that during the last few decades this same modern technology as applied to the media of mass communication has been largely responsible for spreading throughout the third world social phenomena and consumption patterns typical of the advanced countries, in an attempt to imitate their way of life. Finally, when the developing countries try to speed up their rate of growth they find that, in addition to the internal obstacles to this process, their path is blocked by external obstacles as well, some of them similarly deriving from the adverse effect on the developing countries of scientific and technological progress in the advanced countries. I am referring to the well-known direct and indirect effects of scientific and technical progress on the demand for primary products.

These are the fundamental problems which will have to be faced in the coming years. I should like to comment on just one of the problems I mentioned a moment ago - the fact that the economies of the developing countries are insufficiently dynamic to absorb productively in the modern sector the growing increase in the available labour force. The proportion which is absorbed in the modern sector of the economy in general is only a fraction of the increase in the labour force. While the phenomenon of unemployment is not always very evident, what we do find is underemployment, or precarious employment, outside the modern sector of the economy; and this gives rise to growing economic and social tension. Moreover, in my opinion this tension is only in its infancy; we are witnessing the beginnings of a phenomenon liable to develop in a mushroom growth, which should be a matter of great concern here and now. In saying this I have in mind the future consequences of the inevitable technological revolution which the agriculture of the peripheral countries is bound to undergo. Representatives are doubtless fully aware of the growing seriousness of the problem of production of foodstuffs in the developing world. The Director-General of FAO, Dr. Sen, has just drawn urgent attention to the growing danger of famine in some parts of the world. In this connexion, it is worth mentioning that the United States has revised its policy in this respect and instead of continuing to restrict the abundant production of foodstuffs, has decided to expand production so as to be able to cope with the problem now arising and doubtless due to continue to arise until fundamental solutions are found - and this can only come about with the introduction of new techniques. But as these new techniques are applied to the agriculture and marketing procedures of the peripheral countries, the problem of redundant labour will tend to become more acute. There is no reason to believe that in this case there will not be a repetition of the past experience of countries which have gone through or are still going through this stage. I shall not generalize, however, and assume that what happened in the large countries will happen again. One cannot generalize, for a very simple reason - and here again the historical parallel breaks down - in the large industrial centres of the world, not excepting the USSR, the improvement of agricultural productivity by the application of advanced technology took place after those countries had acquired a solid industrial basis which enabled them to absorb the surplus labour without too much trouble. Yet we find that even this was insufficient, since agriculture had to have special protective measures because the speed at which the process took place was not as rapid as it would have had to be. The contrast with what is happening and will happen in the developing countries is noteworthy, because population growth and the inescapable need to achieve a rapid improvement in agricultural productivity and the marketing of agricultural products in order to keep pace with this growth and the rising levels of living, are making their appearance in circumstances where industry and skilled services are not yet ready to absorb this surplus population. This will certainly aggravate the problem of the dynamic weakness of the peripheral economies in coping with the consequences of the introduction of modern technology.

I have drawn attention to this fact because the more I reflect on it, and the more I observe the phenomena occurring in the various parts of the third world, the more I become convinced of the vital necessity for tackling the problem boldly and trying to determine its magnitude in order to devise corrective measures and policies in keeping with its nature and scope. I do not believe, incidentally, that an enlightened demographic policy is going to be of decisive importance during the next twenty years. I do not doubt that sooner or later - and the sooner the better - the developing countries will have to face up boldly to the problem of the high rate of population growth, which is rising with such alarming speed that in a number of countries in Latin America today population growth has already reached the figure of $3\frac{1}{2}$ per cent per annum. There is no escaping this problem. It is of course not merely a matter of economics. It is a grave mistake to regard population control as an alternative to investment. This is a social and moral problem with economic implications, and it requires extremely delicate handling. But even if this extremely important aspect of our present problems were resolutely tackled, we should not let ourselves be deluded into thinking that the effects of such a policy will make themselves felt within the next twenty years. The workers who are going to swell the labour forces of the developing countries during the next twenty years are already born. It is those who come after that will be affected by a demographic policy. Hence the next twenty years will be the difficult period when an alarmingly inflated labour force will be seeking work in the modern sector of the economy. What can international co-operation do to help the developing countries to solve this grave problem? I would say, first of all, that although I attach very great importance to international co-operation, the main point is the responsibility of the developing countries. I shall have something to say on this point further on in my statement.

To meet this requirement it will be essential to step up the rate of growth of the economy - and hence the level of investment - to well beyond the very modest rate of 5 per cent laid down for the Development Decade. But I should like to deal with international co-operation by considering first of all its financial aspects. I hesitate to repeat what has been said recently so often. As you yourself said yesterday, Mr. President, as the Secretary-General of the United Nations said in what I would describe as very affecting words at the last meeting of ECOSOC, and as Mr. Woods, the President of the World Bank, has said time and time again: the flow of international financial resources from the developed countries to the developing countries remained stable from 1960 to 1964, whereas the revenues of the industrial countries increased at a very satisfactory rate. What does this mean? That whereas in 1961 we were approaching the target of the Development Decade - the transfer by the industrial countries of 1 per cent of their gross product to the developing countries - with a figure of 0.83 per cent by 1964, the proportion instead of improving had fallen to 0.65 per cent of the gross product of the industrial countries. In 1965, it is gratifying to note that there was some improvement - the volume of resources which the industrial countries transferred to the developing countries increased and the figure rose to 0.69 per cent - but this is still very far from the target of 1 per cent. I should make it clear, however, that owing to certain differences in the method of calculating the figures, the United Nations estimates do not always coincide with those of other bodies. I think an effort should be made to reach an agreement on method in this matter. What is certain, however, is that whatever the source of the information, the inadequacy of the resources is manifest. Indeed, the President of the World Bank has made it quite clear that the effect of such recent transfers of international financial resources is being largely cancelled out by the growing burden of financial charges payable by the developing countries to the developed countries for international resources previously invested in the developing countries. According to the calculations of the World Bank, the figure amounts to 50 per cent of all new resources transferred by the developed countries to the developing countries. It need not come as a surprise, therefore, to note that other vital point as a symptom of the present situation - a point, incidentally, which we stress in our report: there is no better pointer to the result of all these financial operations than the volume which the developing countries can import over and above the level allowed their exports, in other words the net result of a policy of international financial co-operation. The figures before me indicate that in 1958 the peripheral countries were able to import $2,900 million over what they exported - and this is a measure of the effectiveness of the financial co-operation policy at the time. By 1961, the figure had risen to $3,100 million, only to decline steadily in subsequent years, so much so that in 1964 the corresponding figure was $500 million and in 1965 $400 million. Furthermore, the conditions on which financial assistance was granted have not improved - in fact they have deteriorated in certain respects, as in the case of medium-term assistance, and more recently of interest rates. Furthermore, there is still in existence, for understandable reasons so long as international monetary machinery fails to function effectively, the policy of loans tied to the purchase of capital goods in the countries granting the loans. We know that, generally speaking, this policy means that the developing countries are required to pay prices which are sometimes appreciably higher than the world market prices.

All this points to one reason, but by no means the only reason, why the growth target of 5 per cent has not been achieved. For this reason an item on financing, which is of obvious concern to the developing countries, has been included in the provisional agenda submitted by the secretariat. The question of supplementary financing has also been included. I have on a number of previous occasions stated that I regard the report submitted by the International Bank for Reconstruction and Development as a highly constructive document, since it attempts to dispose of one of the most important aspects of the problem of external stability by providing supplementary resources to countries which have based their development plans on certain assumptions that their exports would expand, only to find that an unexpected decline in exports prevents them from implementing their plans as envisaged. This, in my opinion, is a matter of considerable importance.

In a moment I shall mention another point, namely, that of financing buffer stocks, when I come to refer briefly to the problem of primary products. In the meantime let me turn to the subject of trade, where again the report shows that little progress has been made since the first conference on many of the questions raised then in that field. The present situation is certainly different from that of three years ago, inasmuch as there is a better understanding of the problems, and there are forces in motion calculated to bring about a solution. Nevertheless, obstacles have been encountered that have still to be overcome. As regards primary commodities, the First Conference recognized the need to ensure that imports from the developing countries constituted a share of the increase in consumption of the industrial countries. One of the basic reasons for the failure of the Sugar Conference was precisely that it did not prove possible to implement that recommendation, for understandable reasons. The same problem did not arise in regard to the other primary commodity on which it was hoped to conclude an agreement, namely cocoa - a case which you, Mr. President, are quite familiar with, since you and Ambassador Amjad Ali were kind enough to agree to take the Chair at a series of meetings on this subject. However, no agreement has as yet been reached on cocoa, although all these meetings have led to the establishment of very sound bases, economically and financially speaking, as regards price stabilization and market control for cocoa. There were two main difficulties: price, and the lack of funds to cover the accumulation of buffer stocks in bumper harvest years that could be released on the market in lean years. The cocoa-producing countries reached agreement with the consumer countries to build up a fund, by means of contributions, geared to the respective volume of cocoa exports, for financing these regulating operations; but such a fund would take four, five or perhaps six years to build up, and consequently prior financing would be required. The difficulty is that the international financial agencies are not equipped by their statutes or policies to deal with this problem. This is a basic weakness in the international financial machinery, which existed even before Bretton Woods, and still persists; hence I believe that under the relevant heading particular attention should be devoted to a discussion on the financing of buffer stocks, with due regard to appropriate measures for joint international and national action to correct this basic weakness. In combination with the scheme for supplementary financing, this might provide the developing countries with the solution they have long sought to the problem of their external instability, which together with the slow growth of their primary exports constitutes one of the most serious obstacles to the achievement of a higher economic growth rate.

But as has been stated time and time again, even if all these aims are achieved, it will not solve once and for all the problem of the vast needs of the developing countries in the way of imports of capital equipment and intermediate and consumer goods. Exports of primary commodities alone, whatever their volume and regularity (and there are strict limits in this respect, apart from one or two exceptionally favoured products), and however sound the policy pursued in this direction, cannot solve the problem of the trade gap of those countries. Hence the inescapable need to continue stressing the importance of exports of manufactures from the developing countries. The idea of preferences, which won the support of very influential countries at the First Conference, has been the subject of a series of discussions, and I believe that from the intellectual standpoint distinct progress has been made. It has been recognized, for example, that even if the Kennedy Round is highly successful - and we hope it will be - and there is a considerable reduction in the level of customs tariffs of the major industrial countries, that would be no reason for not applying a policy calculated to abolish the remaining duties as far as the developing countries are concerned - in other words, a policy that would put the exports of those countries on an equal footing with the products of the industrial countries themselves.

While I am on the subject of the progress made from the intellectual standpoint, I must mention two arguments put forward on the question of a preference system for the developing countries. They are two serious arguments, or rather a single argument with two aspects: that preferences would militate against the most-favoured-nation clause and against multilateral world trade. It seems to me that one of the great achievements of the past in the trade field has in fact been the recognition of the need to ensure a steady flow of world trade and to stimulate it by applying the most-favoured-nation clause and promoting the principle of multilateralism. During the Great Depression the world witnessed the foundering of these two principles. But since then the industrial countries have succeeded in bringing them back into operation on a new basis, although notorious defects in the international monetary system have hampered this process. There is now a definite feeling that these defects must be remedied, and also, from another angle, the trade of all countries must be incorporated into the world trade system, including both the developing and the developed countries. There is no doubt that progress has likewise been made in regard to the realization of the economic and political need to solve this problem. But I cannot help wondering whether in fact a satisfactory formula has been found as regards the seventy-seven developing countries. If the existing situation continues, with the developing countries' share in world trade steadily declining and shrinking, how are we to secure for the developing countries, in their relations with the developed countries, the application of the most-favoured-nation clause and the principle of multilateralism in trade? In the thirties, world trade drifted into bilateralism, not through ideological conviction, but because there was a serious shrinkage of trade. But even if this had not been the case, what meaning could a multilateral system and the most-favoured-nation clause have for the developing countries if as a result of the slow growth of their exports they are forced to pursue a policy of import substitution, in separate watertight compartments, as they have done since the thirties, with all the drawbacks that offset the advantages of such a policy? The result would be the perpetuation of two worlds, a developed world with close and prosperous economic interrelations, and a developing world broken up into a large number of autonomous units, with an inadequate foreign trade, and an industrialization programme largely undermined by such compartmentalization.

Not only that, but the most-favoured-nation clause and the principle of multilateralism in trade are in serious jeopardy at this very moment - and here I refer not to the developing countries alone but to the relations between certain developed countries or groups of countries and some developing countries. It is unfortunate, I feel, that we are in the habit of using the term preference policy in reference to two entirely different systems. The first is the attempt to obtain for all the developing countries a system of preferences in all the industrial countries without discrimination of any kind. The second is the concept of preferences whereby certain industrial countries take steps to obtain preference for their exports at the expense of other industrial countries, and at the same time grant preferential treatment to certain developing countries at the expense of other developing countries. So long as we continue to refer to both these entirely different systems as preferential systems, we are bound to run into confusion. The second type of preference system is essentially different from the first, and if it continues to expand, it will lead the world to a system of sectional or vertical preferences that will inevitably take us further and further away from the principle of the most-favoured-nation clause and the principle of multilateral trade. On the other hand general, non-discriminatory preferences granted to all the developing countries by all the industrial countries, in conjunction with other arrangements that the developing countries must make among themselves, will permit the latter to increase their productivity with the expansion of their markets and enable them as time goes on to participate, as developing countries, in a world policy to liberalize trade; and their participation in multilateralism and the application of the most-favoured-nation clause will thus be based on solid ground.

I must state frankly that I am greatly concerned over what is happening in this field, where my forebodings of over a year ago, which were greeted somewhat sceptically in some quarters, are now being fulfilled. I said that certain vertical preference systems would promote other similar systems in the world; and there are clear signs that this is the path we have embarked on. It is a dangerous path, and we should pause to reflect on the need to face this problem courageously and with a clear vision of the type of international economic world we want to establish.

What should be our aims? Or are we to go on improvising, taking piecemeal measures which, when viewed as a whole, suggest that we have gone fa. to distort a process that could have been established on bases highly satisfactory to all concerned? I referred earlier on to the need to incorporate the trade of the socialist countries in the world trade framework, and I do not believe that this would in any way conflict with the application of the principle of multilateralism. In that connexion I would like to mention two statements made by the distinguished representative of the USSR, Mr. Patelichev, the Minister for Foreign Trade, on different occasions during the First Conference.1/ I should like to say, by the way, that I had the pleasure a few days ago of visiting Mr. Patelichev in Moscow, in response to his kind invitation, and discussing with him problems relating to the Second Conference.

1/ "Developing bilateral trade and economic relations with other countries we at the same time do not exclude multilateral agreements when they are considered economically expedient for all partners in trade. The opportunities for the realization of the multilateral forms of trade and payment relations with other countries will grow alongside with the process of further normalization and expansion of international trade".

"In this connexion, we express our readiness to continue the practice of mutually acceptable forms of trade which involve no currency difficulties for the developing countries, including trade on a multilateral basis. The general normalization of world trade and, in particular, the increase in the number of countries with which we have normal trade relations, can greatly facilitate the above-mentioned broad expansion of our trade relations with the developing countries".

Source: Statements made by Mr. N.S. Patelichev (USSR) on 26 March 1964 and 13 June 1964, respectively. (United Nations Publication, Sales No.64.II.B.12, pp.387 and 536).

On the two occasions referred to, Mr. Patelichev stated that the USSR was prepared to consider the multilateral expansion of its trade, with special reference to the developing countries, subject to the normalization of world trade and the increase in the number of countries participating - and as a corollary, the number of products involved. Indeed, the larger the number of countries with which trade is conducted, and the broader the range of products, the less difficult it will be to operate a system of multilateral compensation of trade balances; in other words, the easier it will be to take the right path towards the great goal of multilateral trade throughout the world.

Before leaving this question of preferences, I would like to say that the UNCTAD secretariat has devoted special attention to one particular point. The situation of the developing countries varies widely; there is one group of countries that could take immediate advantage of a system of preferences to promote their industrial exports; on the other hand a good many relatively less developed countries within the third world would not be similarly in a position to do so. In establishing a preference policy, special attention must be given to this point to ensure that all countries can participate. This will require, in the case of the relatively less developed countries, a vigorous policy of establishing industries to enable their exports to compete on the world market. In all these matters I believe that the United Nations has before it a very broad field of action. The United Nations has already given technical assistance for export promotion, though on a limited scale. I believe that the best preference policy in the world could fail if it were not backed up by a vigorous export promotion policy, and here international co-operation will be needed in both the technical and the financial field in order to ensure the establishment and expansion of export industries, with special reference to the countries whose industrial development is in the embryo stage.

This is the essential significance of the document that the secretariat has submitted to the Governments members of the Board, with a view to interesting them in the idea of our taking an active part in technical assistance activities, not by adding further machinery to what already exists, but by making full use of the existing channels for the provision of technical assistance, both in export promotion and market analysis, and in the training of technicians from the developing countries.

While we in the Secretariat were discussing these problems among ourselves, I was gratified, as may be imagined, to see that Mr. Paul Hoffmann, the Administrator of the United Nations Development Programme, had spontaneously remarked at the recent conference at Milan that he intended to support with the resources of his organization such steps as UNCTAD might take to promote exports. With this support from the United Nations Development Programme, I believe we could do an effective job, especially in view of the fact that the United Nations is in a particularly favourable position to take action in this field for two fundamental reasons: in the first place export promotion cannot be carried out in a vacuum, with exports as such as the only concern; the development of exports must be related to a country's industrial capacity. And this being so, it is very important that UNCTAD and UNOID have begun to work together in this sphere. Moreover, the Economic and Social Council, together with the regional economic commissions, which are in the centre of the picture, should also participate in this collective operation by the United Nations Secretariat. Thus we have available a series of unparalleled devices for making our work effective and devoting particular attention to the major task of aiding those countries which are taking the first steps in the process of industrialization - in respect both of that process itself and of the opportunities offered them to begin exporting from the very beginning of the industrialization process.

I should now like to refer to the obverse of this same medal. The First Conference has been persistently criticized as having discussed measures required of the great industrial countries, whatever their economic and social system, to promote speedier development in the peripheral countries, without discussing what should be done by the developing countries themselves in the way of measures towards achieving these objectives. In the report I had the honour to submit to Governments before the Conference there is a chapter on these convergent measures, but perhaps for practical reasons, since the Conference would have been extremely long drawn out, there was nothing on the agenda to direct discussion towards that topic. But now that we are studying the agenda, selectively I hope, perhaps the time has come to supplement the study of measures required of the great countries with measures which the developing countries should take to achieve the objectives of universal concern. What we are seeking, surely, is a structural change in the international economy which will enable the developing countries to export more in order to import more. Let us not forget, however, that the tremendous effort which the developing countries must make to assimilate modern technology cannot be achieved effectively unless these countries, in turn, introduce basic reforms in their economic and social structure. The whole problem of the slow pace of world food production to which I referred earlier on is not merely a problem of lack of technology. In many of the developing countries the problem is the obsolete system of land tenure; and unless it is dealt with forcefully through land reform, technological progress will meet with obstacles that will in many instances prove insurmountable.

Again, can it be said that the present social structure in many of the developing countries is conducive to the assimilation of technology? So long as serious obstacles continue to obstruct social mobility and prevent men of dynamic force from moving up from the bottom to positions of responsibility in the economic life of a country and in its activities generally, we cannot hope for any spectacular achievement in assimilating modern technology and solving the problems to which it gives rise. Is the social purpose of development likely to be achieved while outmoded forms of privilege in income distribution prevail which put no premium on efficiency and are not really conducive to the participation of all members of the nation in the productive process? And as a corollary to this question, will we be able to marshal the resources of the developing countries to the extent required without tackling these problems at the root? Education is a powerful element in social mobility and the rise of capable men to the top. Yet education unaccompanied by a higher growth rate will merely serve to aggravate still further the tension that must arise when the dynamic elements whose wits are sharpened by education and who have been trained for a part in the life of their country are faced with a sluggish rate of development that prevents the full use of their energies in its economic life, thus creating dangerous social and political tensions.

Lastly, in whatever direction we look, we find that side by side with international co-operation there must be a readiness on the part of developing countries themselves to take a series of sweeping measures, broad and far-reaching, if the world is to achieve an effective development policy. But let us guard against the simple slogan that "if the developing countries act first we will then consider the advisability and the feasibility of international co-operation measures". I must speak quite frankly on this point. I believe that the world needs convergent, simultaneous and properly concerted measures. All these structural reforms - land reform, reforms conducive to the marshalling of financial and human resources, the campaign against inflation, the deadly poison of inflation which is causing such havoc in a number of developing countries - will be much more difficult to carry out if the economy continues to develop at a sluggish pace. The task will be considerably easier if income growth rates can be raised not merely to 5 per cent, but perhaps to 6, 7 or 8 per cent. A high development rate will make it easier for the developing countries to take the domestic measures required.

While I am on the subject I must mention another essential structural reform, namely the need for vigorous action to increase trade among developing countries by means of regional and sub-regional groupings and through measures to bring the different developing regions closer to one another from a trade standpoint. From my own observation of what has happened in Latin America I know how difficult it is to move forward in this area. We ask the developed countries to lower their customs barriers, but when we come together to discuss the problem among ourselves we are faced with the same obstacles and objections as in the developed countries; and a determined effort must be made to overcome them, because industrialization in the peripheral countries cannot expand if their markets remain small. This is an established fact; but in practice we come up against enormous difficulties, though these can be considerably lessened provided the economy, with stimulus from abroad, develops at a more rapid rate. That is why I believe that the measures must be simultaneous, convergent and properly concerted. I think, Mr. President, that I am reflecting the words you spoke yesterday, referring to the need to combine measures in the two groups of countries - the developed and the developing; and it seems to me that a climate is being created which is conducive to consideration of these problems in this form. Speaking at the third session of the Board, the distinguished representative of Switzerland spoke of the need for synchronized action and convergent measures by both sides. I recall too that concern on the same point was expressed by Mr. Bet, the distinguished Minister responsible for development aid in the Netherlands, in a striking statement he made in the Second Committee of the Assembly last year. He said that though he had found development in the present Decade to be illusory "if we move rapidly we may use the last years of this Decade to prepare a new development strategy"; and that "our development strategy has proved unequal to its admittedly gigantic task".

I believe that we ought to examine the possibility of formulating policy for economic development in which, as I said before, the measures to be taken by the industrialized countries and those to be taken by the developing countries will converge. I am not speaking merely of a statement of objectives, but also of the need for progressive quantification of those objectives both in the financial and in the trade sphere. It is remarkable how much knowledge the world has been accumulating on this subject. Consideration of this problem leads by the sheer force of logic to the need to quantify, to establish the size of the objectives to be pursued and the extent of the resources required, both financial and in trade, to attain those objectives. My colleague Philippe de Seynes had the felicitous notion of convening for the first time a seminar of planning experts at which, in addition to the consideration of problems at the national level, the possibility was examined of progressively quantifying the objectives of certain planning measures in the international field. I think that enough experience has been gained to enable us to move with a certain freedom in this direction. We see, for example, that FAO has had the vision to undertake an outline plan for agricultural production, which seems to me of the highest importance as calculated to give some idea of the magnitude of the problem which will confront the world and suggest a suitable policy for meeting it. I therefore feel that the time may have come to gather together our scattered forces and consider seriously the possibility of framing an over-all development policy at the national and international level with the consensus of the Governments concerned. I say this because when a few months ago the World Bank submitted its scheme for supplementary financing, some very important questions were raised which were outside the scope of the strictly technical scope of the report. I remember that the delegations of various developing countries questioned me about this. They said I had pointed out - as I did in my opening statement - that supplementary financing was based on the idea of planning; but a plan is the reflection, the translation into concrete measures, of an economic and social development policy. If in order to obtain the necessary basic or supplementary financing for the fulfilment of a plan a country's economic and financial policy had to be subjected to a process of evaluation, did not that amount to poaching on the country's inalienable preserves? The political importance of the question thus raised is perfectly clear. But what is the answer? The national counterparts of a world economic development policy will of course be formulated by the industrialized and developing countries themselves, reaching agreement in international bodies on the broad outlines of policies for economic and social development and for international economic co-operation. Such a thing can only be done by consensus. Once such a consensus has been reached, a number of criteria and guiding principles will be available for assessing the validity of economic plans; moreover, as I have said more than once, I think that all this is going to make us take a new look at the suggestion that before being submitted to lending agencies, plans should be evaluated by an impartial group of international experts who would assess them both from the standpoint of the targets laid down by the country concerned and from the standpoint of objectives agreed upon at the international level by both groups of countries.

Perhaps it may be suggested that I am thinking in terms of long-range solutions which are out of the picture in considering pressing current problems. All too often it happens when awkward practical problems have to be faced that a more general solution is sought which diverts attention from discussing the immediate issue. That is not what I am doing at the moment. It seems to me that a clear recognition and appreciation of the need to formulate a policy on the scale I have outlined is no reason whatever for failing to press on with the search for the means of achieving fruitful negotiations at the next Conference. In my opinion the Second Conference must be essentially a negotiating conference, and sufficient progress has already been made in respect of certain problems to make this possible. I also believe that, if we advance along the lines I have suggested, it will be possible to start negotiating the basic essentials of a policy of development and international co-operation.

At the same time we have to ask the question whether there is not some inconsistency between meagre results we have achieved so far - as revealed in our report, though perhaps there has not yet been enough time - and what we would like to see achieved in a very much wider sphere. Well, I for one am not discouraged: the somewhat negative findings of the report convince me rather of the necessity to redouble our efforts at persuasion, to work with the people in the industrialized countries - inside and outside Governments, in the universities, the political parties, the religious movements, the trade unions - who are convinced of the urgent need for far-reaching solutions to these problems. This need is manifest, and becomes every day more manifest, as is also the fact that in all this evolution of opinion that is taking place in the great industrialized countries, it is not economic considerations or economic concerns that are the determining factor; and here again we have clear evidence of the tremendous impact of technical development. Historically, the prosperity of many of the world's industrial centres has been greatly dependent on large-scale transfers of revenue from countries on the periphery of world economy as a result of the political and economic domination to which the latter were subjected. Today, with the enormous advance of technology, none of the major countries depends for its prosperity on the repetition of this historical experience. The major countries have acquired a prodigious capacity for expanding their income which has placed them for the first time in the unique position where they can carry on their economic development without recourse to the transfer of resources from abroad. I am not saying that economic factors are not important; we see every day that they are. There is no doubt that a policy of expanding trade is in the interests of both developing and developed countries. But the nature of the problem today has changed. Hence the importance of mobilizing opinion in the industrialized countries - and in the developing countries, too, as far as the reform of their own economic structures is concerned - with a view to formulating such a policy and applying it effectively. In all this, there is something that stands above mere economic considerations. Yesterday, Mr. President, you referred to the adventure of development: I would call it the profoundly human adventure of development, the adventure of exploiting the vast potentialities of modern techniques, of scientific and technological advances, to transform utterly the face of this developing world - still for the most part a world of poverty, disease and illiteracy. This is the human side of what we are seeking to do, and on this side, apart from secondary questions of economic interest, there are motives of far more fundamental import, eminently human, political and moral motives - the response to the mighty challenge confronting the world today. That is why I believe that institutions such as UNCTAD and the other international organizations working under the auspices of the United Nations have a vital role to play. I am not discouraged, even though here and there hitches or difficulties have arisen, because I am profoundly convinced that the world is in need of a radical change, not on account of the economic concerns of the industrialized countries, but on account of economic, social and political considerations affecting the developing countries; and because the large industrial countries, despite their great technological achievements, have not found, and are not likely to find, any way of immunizing themselves against what is happening and what is going to happen in the developing world unless there is a momentous policy of international co-operation built up on solid foundations.

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Item 5 of the provisional agenda

REPORT OF THE COMMITTEE ON INVISIBLES AND FINANCING RELATED TO TRADE ON ITS RESUMED FIRST SESSION

held at the Palais des Nations, Geneva, from 13 to 20 April 1966

CONTENTS

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INTRODUCTION

1. At the first part of its first session, held at Geneva from 6 to 22 December 1965, the Committee adopted an agenda (TD/B/C.3/13)[1/] which contained, among others, item 8 entitled "Consideration of the report of the International Bank for Reconstruction and Development on its study of a scheme for supplementary financing".[2/]

2. As explained in the report on the first part of its first session (TD/B/42 - TD/B/C.3/15, para. 53), the Committee decided "to consider the problem of this item at a resumed first session in 1966, to be called for this purpose ...".

3. At the third session of the Trade and Development Board, the Chairman of the Committee in his statement on the Committee's work in the field of financing related to trade (TD/B/58) referred to this matter, and The Economic Adviser to the President of the Bank summarized the main features of the study (TD/B/59). In the course of the discussion on the subject[3/] a large number of delegations welcomed the report but wished to withhold comment on the substance until the resumption of the Committee's first session in April 1966.

1/ See the Committee's report (TD/B/42 - TD/B/C.3/15) para. 104.

2/ The Bank's report on its study, which was prepared by the Bank staff in response to a request made by the United Nations Conference on Trade and Development, 1964, was circulated as document TD/B/43.

3/ See the Board's report on its third session (TD/B/66), paras. 40 and 55.

Chapter I

CONSIDERATION OF THE REPORT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ON ITS STUDY OF A SCHEME FOR SUPPLEMENTARY FINANCING (item 8 of the agenda)
(resumed from the first part of the session)

4. In accordance with the recommendation in annex A.IV.18, part A, to the Final Act of the United Ndations Conference on Trade and Development, 1964,[4/] the staff of the International Bank for Reconstruction and Development prepared a study entitled "Supplementary Financial Measures" (TD/B/43). The study proposes a scheme for the provision of supplementary financial assistance to developing countries to prevent the disruption of their development programmes in consequence of persistent shortfalls of export proceeds from reasonable expectations. The scheme is based on a close and continuing relationship between the administering Agency and the countries concerned, and an understanding regarding the broad content of development plans and policies, including export forecasts.

5. The scheme assumes that adequate amounts of basic development finance (external and domestic) would be available. The need for supplementary finance would arise should export proceeds fail to provide the expected amount of foreign exchange for reasons beyond the control of the developing country concerned. The Scheme aims at making supplementary assistance speedily available in the light of the economic and financial situation of the country, its performance in carrying out development programmes and policies and the availability of finance from other sources.

6. In his opening statement the Secretary-General of UNCTAD said that the Bank staff study constituted an outstanding contribution towards solving the serious problems which fluctuations in the external sector pose for developing countries. In his view the Committee's examination of a practical solution to one of these problems marked a transition of UNCTAD from a forum of discussion to an instrument for action. He felt that the scheme was perfectly compatible with and, indeed, complementary to international primary commodity arrangements, i.e. to the organization of markets. He emphasized that supplementary finance should be additional to basic development finance. Stressing the importance of export projections in the proposed scheme, he noted that there were various ways of making such projections and of interpreting deviations from projected trends. He questioned whether supplementary finance

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4/ Proceedings of the United Nations Conference on Trade and Development, vol.I, Final Act and Report (United Nations publication, Sales No. 64.II.B.11), p.52.

should be made available on terms similar to those of basic development finance, suggesting that they be more liberal, and asked whether the Agency should not take account of changes in the terms of trade in considering the need for supplementary finance. He also emphasised the need to draw a distinction between the technical and the political aspects of a development plan. He felt that the latter were a matter for determination by developing countries themselves. Without prejudice to the evaluation of development programmes by the international financial institutions, he pointed to experience in Latin America of evaluation made by a group of independent impartial experts.[5/]

7. Most Committee members supported the proposed scheme in principle or as a basis for further discussion. They regarded it as a means of solving the problems arising from adverse movements in export proceeds which are of such duration or nature that they could not be adequately dealt with by short-term balance of payments support. Certain qualifications and less favourable opinions were, however, expressed by a number of representatives.

8. One representative stated that the scheme might inhibit an effective organization of markets by means of commodity agreements because it would compete for the financial resources required. He also pointed out that the scheme might make it possible for developing countries to avoid the adjustments in the structure of their production which would be required for market organizations to be effective. Several representatives stressed the importance of stabilizing the prices of raw materials. Most representatives considered that commodity agreements and supplementary financial measures would be entirely compatible.

9. The representatives of some socialist countries of Eastern Europe stated that the scheme submitted by the Bank staff did not in substance propose radical means which would assist the developing countries to solve the problem under discussion; in their view the scheme did not explain the causes for the emergence of shortfalls in export proceeds of developing countries and was limited simply to the examination of certain consequences of those causes. The opinion that the scheme was designed not so much to influence the causes of the adverse movements in export proceeds from which developing countries suffered as to offset certain consequences of these movements, was likewise expressed by other representatives.

5/ For the full text of the statement by the Secretary-General of UNCTAD see annex B to this report.

10. The representatives of some socialist countries of Eastern Europe were of the opinion that the provision of assistance according to the scheme would depend upon a subjective evaluation of the development of the economy and on the implementation of certain economic policies by the developing country concerned. This as well as the terms and conditions proposed by the Bank staff in its study would conflict with the recommendation in annex A.IV.3 to the Final Act of the 1964 Conference.

11. They stated that they did not bear any responsibility for the difficult economic situation of developing countries which resulted from the deterioration of their terms of trade on capitalist markets. These countries adhered to the point of view which they had expressed at the first session of UNCTAD when the recommendation in annex A.IV.18 had been voted upon; during the vote on this recommendation they had abstained.

12. They added that the shortfall of export proceeds of developing countries had resulted from the anarchic situation in the market and the domination of that market by western monopolies.

13. In their view the most effective means to ensure the stabilization of the export proceeds of developing countries would be international commodity stabilization agreements which would establish economically justified price levels and provide for the steady growth of trade in those commodities, having regard to the interests of all countries concerned, and also the conclusion of bilateral long term trade agreements.

14. The representative of a socialist country stressed that the financing should proceed on the basis of strict respect for the national economic policy of the country concerned. He stated that the principles and conditions which were to apply to the supplementary finance should be such as to make the financing advantageous and operative, and that there should be no undesirable interference in the internal economy of the beneficiary countries.

15. Of the many representatives who supported the proposed scheme as a basis for further study, several expressed the opinion that funds provided under any supplementary financing scheme should be in addition to basic development finance. In this regard, it was said that contributions to the supplementary financing scheme should not be made at the expense of the resources made available to the International Development Association and the United Nations Development Programme. One representative stressed the value and importance of contributions to multilateral lending institutions,

particularly the IDA. Some representatives expressed reservations about the adequacy of the figures of $300 - $400 million estimated to be the annual requirements of the scheme.

16. Some representatives expressed the view that, in the determination of shortfalls, the question of changes in the terms of trade should be taken into account. In the same context, attention was also drawn to changes in the import content of exports, when estimating the extent of a shortfall or overage. Recalling the need to consider supplementary finance as such, and not as residual financing, in the context of overall financial assistance for purposes of fostering economic development programmes, they raised questions about the method of calculation and proposed use of overages to cover deficits occurring before or after such overages, especially with regard to the effect of the use of overages on the servicing of short-term debt.

17. With regard to the terms and conditions of supplementary assistance, some representatives considered that the Agency should have flexible policies. One representative pointed out the need to give further consideration to the question of the rotation period of the loans. Some representatives questioned the proposal that the Agency should have the right in certain circumstances to request repayment from participating countries earlier than originally stipulated. Several representatives felt that the terms of supplementary assistance should be concessional in view of the overall indebtedness of developing countries. The debt position of individual countries and their capacity to incur additional indebtedness on conventional terms were cited by several representatives as the primary considerations that should govern the terms of supplementary finance. This view was shared by the representative of the World Bank, who stressed the necessity of maintaining the Agency's flexibility in setting terms suitable to development and adapted to the overall economic and financial situation of the countries concerned. This would be done through a process of continuous consultation between the Agency and governments.

18. Members of the Committee considered that the extent of the discretion of the Agency in determining whether or not supplementary finance was to be provided in particular cases should receive careful study. It was recognized that the Agency's policies and practices would be a central question in the final elaboration of the scheme. The relations of the Agency with existing international financial

institutions were felt to be a particularly important matter. Many representatives referred to the need for a close relationship between the International Monetary Fund's compensatory financing facility and the proposed supplementary financial measures.

19. The representative of the Fund, in his discussion of the Fund's compensatory financing facility, stressed its short-term character, which distinguished it from the Bank staff's proposal. He also reported to the Committee that the measures proposed in the recommendation in annex A.IV.17 to the Final Act of the 1964 Conference and at the meetings of the Governors of the Bank and Fund in 1965 for improving the Fund's compensatory financing facility were under the active consideration of its Board. These proposals concerned methods of computing shortfalls, the amount and character of the compensation provided, and the possibility of re-financing compensatory credit obligations.

20. With regard to the pre-condition laid down in the Bank staff's proposal that to qualify for supplementary finance a country would have to make feasible domestic adjustments, it was emphasized by many representatives that such adjustments should not in any event involve reduction of the scale of development programmes.

21. It was further emphasized that the scheme should promptly meet the urgent needs caused by shortfalls. Many representatives emphasized the necessity of avoiding delays which might result from treating the Agency as a lender of last resort. One representative, however, expressed the apprehension that participants in the scheme might resort to it too soon, before attempting to utilize other sources of finance.

22. Although it was considered that export projections represented a useful approach to the quantification of "reasonable expectations", general questions and some doubts were expressed about the methodology and reliability of export projections. Recognizing that the quality of projections could be improved the representative of the World Bank cited the Bank's experience in stating that reasonable expectations could be based on export projections.

23. Considerable attention was devoted during the discussion to the question of the performance requirements for assistance under the supplementary finance scheme. Some representatives said that this was a particularly important and valuable feature of the scheme.

24. The idea of economic development as a joint enterprise involving close international co-operation was generally welcomed, but the need to define the form of the understa nding between the Agency and member countries was emphasized. There was widespread recognition that performance criteria should be as flexible and general as possible and should be adapted to the circumstances of the particular countries concerned.

25. Some representatives felt that there was a risk of a country being placed under the permanent control of the agency administering the scheme - a control that might imply a detailed examination of the mobilization of a country's domestic resources, its capacity to absorb foreign capital, distribution of investments and balance of payments policies. They questioned the need for the examination of an entire plan in order to establish the existence of export shortfalls.

26. A number of suggestions were made regarding the principles according to which performance criteria should be formulated. In this respect many representatives supported the view of the Secretary-General of UNCTAD that an attempt could and should be made to separate technical from political considerations. It was further suggested that the Agency should only indicate a choice of alternatives, leaving to the authorities of the countries concerned the responsibility for selecting appropriate targets and policy measures.

27. It was also suggested that there should be an examination of the possibility of modifying a plan in certain respects without seeking the consent of the Agency. The hope was also expressed that a country without a development plan would be eligible for assistance under the scheme and that arrangements consistent with this situation would be devised. It was suggested further that provisions regarding supplementary finance should be more liberal than those applicable to basic finance.

28. Several representatives felt that the scheme for supplementary financing need not involve interference with the sovereignty of the country being assisted, while recognizing that there was a great deal of truth in the contention that the scheme placed quite severe demands on economic planning and performance by developing countries. It was suggested that in the modern world all countries - and not least the highly industrialized ones - had reached such a degree of economic interdependence that absolute economic sovereignty had become a fiction. These representatives felt the scheme to be an evolution and extension of existing practices of international consultation affecting not only developing countries but developed countries as well.

29. In the course of his remarks on points raised during the debate, the representative of the Bank observed that the scheme did not imply any "control" of national policies by the Agency. The understanding between the Agency and the country concerned would be reached through constant consultations and frequent interchange of knowledge and views. This, he said, was the normal practice of the Bank in its relations with member countries. The approach of the scheme was pragmatic and did not purport to apply rigid standards universally in a uniform manner. The Agency would be an international institution, with international responsibilities, solely guided by the common interest in development.

30. After the completion of the formal debate an informal meeting of the Committee was held to provide an opportunity for representatives to put forther questions to the representative of the Bank concerning some specific features of the proposed scheme. It was generally felt that the exchange of views which followed had served a useful purpose.

31. At the end of the Committee's deliberations, a draft resolution was submitted jointly by the representatives of Brazil, Ecuador, El Salvador, India, Peru, Sweden, Uganda, United Arab Republic, United Kingdom of Great Britain and Northern Ireland and Yugoslavia (TD/B/C.3/L.32 and Add.1) providing for the establishment, subject to the approval of the Board, of a small group of government representatives, with the requisite expertise, to study the proposed scheme for supplementary finance and to report to the Committee's next session; an annex to the draft resolution contained the terms of reference of this group of government representatives.

32. In conformity with rule 31 of the Committee's rules of procedure, the secretariat made a statement (TD/B/C.3/L.33) concerning the financial implications of the action proposed in the draft resolution.

33. At the Committee's 35th meeting on 20 April 1966 the draft resolution with its annex was adopted, with certain modifications and additions, by 33 votes to none, with 5 abstentions.[6/]

6/ For the text of the draft resolution and terms of reference as adopted see annex A to this report.

34. The representatives of Australia, Belgium, China, Federal Republic of Germany, France, Ghana, Poland, Spain and the United States of America made statements in explanation of their votes. The statements are recorded in the summary record of the Committee's 35th meeting (TD/B/C.3/SR.35).

35. In response to a question, the secretariat expressed the view, in the light of advice and information received, that the Group established by the resolution just adopted would need four to six months to prepare its report and that at least a further two months would be needed to have that report circulated and considered by Governments.

36. The Committee decided that members of UNCTAD would be invited to send observers to the meetings of the group under rule 76 of the Committee's rules of procedure, and that the documentation and other relevant data would be sent to all members of UNCTAD.

Chapter II
ORGANIZATIONAL MATTERS

(a) Opening of the session

37. The resumed first session of the Committee was opened by the Chairman, Mr. J. Everts (Netherlands) at the 28th meeting held on 13 April 1966[7/].

38. At that meeting the Secretary-General of UNCTAD made an opening statement[8/].

(b) Membership and attendance

39. The session was attended by representatives of the following States members of the Committee: Argentina, Australia, Belgium, Brazil, Canada, China, Czechoslovakia, Ecuador, El Salvador, Federal Republic of Germany, Finland, France, Ghana, India, Israel, Italy, Japan, Lebanon, Mexico, Morocco, Netherlands, Peru, Poland, Republic of Korea, Romania, Spain, Sweden, Switzerland, Trinidad and Tobago, Tunisia, Turkey, Uganda, Ukrainian Soviet Socialist Republic, Union of Soviet Socialist Republics, United Arab Republic, United Kingdom of Great Britain and Northern Ireland, United States of America, Yugoslavia.

40. The following States members of UNCTAD were represented by observers: Austria, Cambodia, Ceylon, Chile, Denmark, Hungary, Iran, Iraq, Jamaica, New Zealand, Nicaragua, Nigeria, Norway, Pakistan, Philippines, Portugal, South Africa, Uruguay, Venezuela.

41. The following specialized agencies were represented at the session: Food and Agriculture Organization of the United Nations, International Bank for Reconstruction and Development, International Monetary Fund. The General Agreement on Tariffs and Trade (GATT) was also represented.

42. The following inter-governmental organizations were represented at the session: European Economic Community, Inter-American Development Bank, International Tin Council, International Union for the Protection of Industrial Property, League of Arab States, Organization for Economic Co-operation and Development.

7/ For technical reasons the session, originally scheduled for 4 to 13 April (according to the Calendar of Meetings adopted by the Board in its resolution 28(III) of 15 February 1966), was postponed until 13 April.

8/ For the text of the statement see annex B to this report.

43. The following non-governmental organizations were represented at the session: International Bar Association, International Chamber of Commerce, International Federation of Christian Trade Unions, International Organization of Employers, World Federation of United Nations Associations.

(c) Credentials

44. At its 36th meeting on 20 April 1966 the Committee considered and noted the Bureau's report on credentials (TD/B/C.3/21).

(d) Other business

45. With reference to arrangements for its second regular session, the Committee noted that, according to the Board's resolution 28(III) concerning the calendar of UNCTAD meetings for 1966, its second session was scheduled to be held at Geneva from 21 November to 2 December 1966. In the light of the consideration given at the first part of the Committee's first session to the draft provisional agenda for the second session[9/], the Secretary-General of UNCTAD submitted a revision of the draft provisional agenda (TD/B/C.3/L.25/Rev.1). At its 36th meeting on 20 April 1966 the Committee considered and noted this revised version of the provisional agenda for its second regular session.[10/]

46. The Chairman referred to the Committee's earlier decision to continue at a later date the discussion on item 9 of the agenda for its first session ("Consideration of the report of the group of experts on international monetary issues"); it had been stated at the Committee's special session (New York, 27 January to 4 February 1966) that members of the Committee might wish to consult informally among themselves on the occasion of the resumed first session for the purpose of deciding when the discussion might be resumed (TD/B/57, paragraph 20). The Chairman said that the results of such

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9/ See report (TD/B/42 - TD/B/C.3/15), para.113 and the summary record of the Committee's 20th meeting (TD/B/C.3/SR.20).

10/ For the text of the provisional agenda see annex A to this report.

informal consultations as had been brought to his notice indicated that, for the moment, there seemed to be no need for any immediate reconsideration of the item by the Committee, since no important new developments had occurred in the meantime. If new developments should occur which, in the opinion of members of the Committee, would justify a reconsideration of the item, it would be for those members to inform the secretariat accordingly, in order that further consultations might take place regarding the procedure to be followed. It had been pointed out, furthermore, that an opportunity for any consultations desired would be afforded at the fourth session of the Trade and Development Board, which was due to open at the end of August.

(e) Adoption of the report

47. At its 36th meeting on 20 April 1966 the Committee adopted this report.

(f) Closure of the session.

48. At the 36th meeting on 20 April 1966, the Chairman declared the Committee's first session closed.

ANNEX A (i)

DECISIONS TAKEN BY THE COMMITTEE AT ITS RESUMED FIRST SESSION

(i) SUPPLEMENTARY FINANCIAL MEASURES

Resolution adopted by the Committee at its 35th meeting on 20th April 1966

The Committee on Invisibles and Financing Related to Trade:

TAKING NOTE of recommendation A.IV.18 of the first UNCTAD and having regard to the discussions of the Committee during its resumed first session,

EXPRESSING its considerable appreciation for the study prepared by the staff of the International Bank for Reconstruction and Development, in response to the invitation of the first UNCTAD under part A of that recommendation.

NOTING that the existing international financial machinery does not include a mechanism designed to deal with problems arising from adverse movements in export proceeds which prove to be of such a nature or duration that they cannot adequately be dealt with by short-term balance of payments support, and to provide longer term assistance to developing countries which would help them to avoid disruption of their development programmes and that, accordingly, appropriate measures should be introduced,

Without prejudice to current and future work towards agreement on individual commodities in international trade and other practical measures to achieve a stabilization of commodity markets, including the process of organization of markets, expresses the hope that the relationship of any measures taken under the recommendation in question with this other work will be studied in the Committee on Commodities and in other competent organs of the UNCTAD;

NOTING the considerable measure of support in the Committee for the concept of supplementary financial measures elaborated in the Bank staff study;

AGREES that the scheme of supplementary financial measures set out in the study prepared by the staff of the International Bank for Reconstruction and Development in accordance with that recommendation should be further studied and elaborated in the light of the discussions of this Committee, as a means of dealing with this question, and therefore

DECIDES for this purpose, subject to the approval of the Board, to establish under rule 63 of the rules of procedure of the Committee a small group of representatives of governments, with the requisite expertise, consisting of 13 to 15 1/ members, to study and report on this matter to the second session of the Committee, with the terms of reference set out in the annex to this resolution;

INVITES representatives of the staff of the Bank and the International Monetary Fund as well as representatives of such other bodies as the Group may consider appropriate to assist in the work of the intergovernmental group and in particular to prepare such factual material as may be required to enable the group to accomplish its task.

1/ Argentina, Brazil, Ceylon, Federal Republic of Germany, France, Ghana, India, Japan, Sweden, United Arab Republic, United Kingdom of Great Britain and Northern Ireland, United States of America, Yugoslavia. If one or two members of Group D wish to join, their countries would be added to the list of members.

Annex

Terms of reference for intergovernmental group

1. The Group should examine the study presented to the Secretary-General by the staff of the Bank, in the light of the discussion of it in the Committee. The Group should submit a report on the study (with such modifications to the scheme as it may consider appropriate) as a means of achieving the objective set out in part A of recommendation A.IV.18 of the first Conference. Having regard to the timetable for the next Conference, the Group should endeavour to submit the report in good time for consideration by the Committee at its second session, in November, 1966.

2. The Group should pay special attention to the following points:

(i) Questions affecting the scope of the scheme, including the treatment of overages and the regard to be paid to import prices.

(ii) The form, terms and conditions for the provision of financial assistance to countries participating in the scheme.

(iii) Measures for establishing a relationship between the resources available and the resources required; in this connexion the Group should examine the implications for the scheme of the hypothesis that resources on the scale suggested in the Bank staff study (taking account of any modifications which the Group may suggest) would be available.

(iv) The need to establish a boundary between problems of an economic nature and those which fall within the political sphere in the administration of any scheme.

(v) Questions relating to the methodology to be applied in the formulation of the projections and the technical assessment of the policies on which the development plans of individual countries are based, the circumstances which may give rise to a claim on the scheme, and the considerations which the Agency should take into account in dealing with such a claim.

(vi) The appropriate period of time for which the relevant projections of exports should be established and the concomitant obligations of the Agency and the developing country concerned respectively should be assumed.

(vii) The relationship between supplementary financial measures and other types of economic assistance, both multilateral and bilateral, with particular regard to the need to ensure compatibility between them as regards the terms, conditions and criteria on which they are to be provided.

(viii) The comparative effects on economic development of the scheme proposed and of other possible methods which might be employed for the same purpose but with due regard to the primary task laid down in the fifth and sixth paragraphs of the resolution to which these terms of reference are annexed.

(ix) The status, membership and function of the Agency and its relations with other international bodies, having regard to paragraphs 7 and 8 of part A of recommendation A.IV.18.

3. The Group may also put forward suggestions, for further consideration by governments, of ways in which the scheme might be financed.

ANNEX A (ii)

(ii) PROVISIONAL AGENDA, DATE AND PLACE OF THE SECOND SESSION OF THE COMMITTEE[1]

Provisional agenda for the second session of the Committee

(Submitted by the Secretary-General of UNCTAD in conformity with rule 8 of the rules of procedure)

1. Opening of the session
2. Election of officers
3. Adoption of the agenda
4. Consideration of the adequacy of the rates of growth achieved by the developing countries:
   (a) Mobilization of internal resources and the flow of external assistance
   (b) Problems of measuring the net flow of resources to developing countries
   (c) The terms, co-ordination, and effectiveness of aid
   (d) Problems of debt servicing
   (e) Suppliers' credit
   (f) Stimulation of the flow of private capital
   (g) Financing and Regional Development: Aspects of the expert group report entitled "Trade Expansion and Economic Co-operation among Developing Countries" (TD/B/68)
5. The Horowitz proposal: Consideration of the report of the group of experts.
6. Further consideration of the report of the expert group on international monetary issues (TD/B/32)
7. Report of the group of experts on payments arrangements among developing countries
8. Supplementary financial measures

1/ According to resolution 28(III) adopted by the Trade and Development Board on 15 February 1966, the second session of the Committee on Invisibles and Financing related to Trade is scheduled to be held at Geneva from 21 November to 2 December 1966.

9. Progress reports on the programme of work on invisibles.[2/]

   (a) Insurance and reinsurance

      (i) Report of the Expert Group on Reinsurance

      (ii) Other activities

   (b) Tourism

10. Provisional agenda, date and place of the third session of the Committee

11. Adoption of the report of the Committee to the Trade and Development Board

12. Any other business

2/ It is expected that the Committee may wish, as at its first session, to consider this item in a separate sessional sub-committee of the whole. It is hoped in this connexion that the delegations to the session will include experts in the field of insurance, reinsurance and tourism respectively.

ANNEX B

statement by Dr. Raul Prebisch,
Secretary-General of UNCTAD, at the Committee's
28th meeting on 13 April 1966

Mr. Chairman,

I thank you for giving me the floor to speak on the Study by the International Bank for Reconstruction and Development on Supplementary Financial Measures, the importance of which you have rightly stressed. This report, which the Committee is going to consider at its present meeting, is of great significance, not only because of the subject matter itself, but also because this is the first opportunity UNCTAD has had since the 1964 Conference of engaging in a discussion which will no doubt be very fruitful.

It will be recalled that, at the Geneva Conference the developing countries stressed the need for measures against the continual fluctuations in the external sector of their economy. It was in response to that concern that the United Kingdom and Swedish delegations submitted a draft resolution which led to the report we are now about to examine. The discussion therefore has a concrete proposal as its starting point.

It is a matter for satisfaction that UNCTAD is thus entering a new field of activity. It has been repeatedly stressed that UNCTAD should not be merely a forum for the discussion of problems, but also an adequate instrument for solving them in practice. Hence the great significance of this meeting of the Committee, which is called upon to study a programme and a practical solution presented to us with all the authority of the International Bank.

I should like to deal with three aspects of the report. First, an examination of the proposal itself. Second, its nature and characteristics. Third, the relationship between this scheme for supplementary financing and the basic financing of economic development plans.

On the first point, we should consider whether the idea of supplementary financing which emerged from the 1964 Conference provides the best means of counteracting the effects of fluctuations in the external sector of the developing countries. I have no hesitation in saying that it is an adequate solution and perfectly compatible with other methods of reducing the extent of these fluctuations. I refer, in particular, to the arrangements or agreements relating to primary commodities, in other words to the organization of markets. I do not believe that these agreements offer an alternative to supplementary financing, but merely another convergent means of solving the problem of external fluctuations. I say this for two reasons. First, because not all primary commodities can be the subject of stabilization agreements and secondly, because these agreements are not generally intended to establish a fixed price, but rather a maximum and minimum between which market prices can continue to fluctuate. This is true of the cocoa agreement which UNCTAD is now considering with, I am sure, very good prospects of overcoming the differences which still divide the countries interested in that commodity.

Accordingly, even where satisfactory commodity agreements are arrived at, there will still be a margin of fluctuation which will require supplementary financing to obviate the effects of such fluctuation on the economy of developing countries.

The Study submitted by the Bank has the unquestionable merit of frankly recognizing that it is very difficult, if not impossible, to formulate a systematic economic development policy and apply it in a development plan, if all the fundamental calculations for the plan are upset by external fluctuations. This constitutes a very positive contribution to the solution of one of the most serious problems facing the developing countries.

I should now like to examine briefly some of the main characteristics or modalities, of the Bank's study. It is essentially based on a projection of a country's exports. The idea that the projection of exports constitutes an essential element of any economic development plan is fully accepted, so that there is no need to discuss it, although from the technical point of view, there may be differences of opinion regarding the methods used (or which should be used) in making the projections or the criterion on which this work should be based.

The Bank has used the projection method to determine the magnitude of the supplementary financing. At the same time, it has used it to introduce the closely related concept of exports which at a given moment are larger than those forecast in the projection. The Bank uses the term "overages" - i.e. excesses - to describe this and considers that the excess of exports over the projected figures must subsequently be taken into account in determining the amount of supplementary financing which a country should receive when there is a shortfall. This means that there would be some off-setting between a present deficit and a past surplus with respect to the projected figures. This point should be examined in detail. What will a country do when its exports exceed the projected figures? Will it accumulate additional monetary reserves if its reserves are already at a satisfactory level? Will it increase its reserves and await a fall in exports to bring them into play? Will it invest the reserves if they appear excessive in the light of the country's experience, or will it use them to import capital goods?

In the thirties, when I had played some part in my country's Central Bank, I had occasion to recommend an anti-cyclical policy based on the formation of additional monetary reserves during the upward phase of the cycle, when exports are increasing so as to have resources available to face the downward phase. To this end, the Central Bank put notes or bonds on the market so as to withdraw the excess money created by abundant exports and at the same time accumulated reserves. Thus the anti-cyclical policy was combined with an anti-inflationary policy, by withdrawing excess purchasing power from the market.

A policy of that type was quite understandable at the time, for two main reasons. First, because we were then living under the tremendous impression created by the world depression, and considerations of stability prevailed over considerations of development in the central banks of the developing countries, the aim being to avoid any further serious contraction of the economy. Another basic consideration was that the world then had no international credit machinery to cover a deficit in the balance of payments, whether it was cyclical or not. Today, Mr. Chairman, I would not advocate a policy of that nature. I believe that now, when considerations of economic development prevail, reserves in excess of what prudence requires a central bank to maintain should be used to acquire capital goods. We should consider this point and explore the possibility that, in the event of a cyclical recession, the external resources thus used in boom periods can be recovered through the agency of international credit organizations. I would like to submit this idea for the consideration of Mr. Friedman and, of course, of the group of experts which will be set up to consider this problem if the suggestion made a moment ago by the Chairman is adopted by this Committee and by the Trade and Development Board.

A point of considerable interest with regard to supplementary financing is that it would be granted on terms similar to those of basic financing. On this point I should like to ask the distinguished representative of the Bank a few questions. If the basic financing of a plan has been granted on certain specific terms as to interest rates and duration, and a contraction of external origin then occurs which reduces a country's capacity for saving, will supplementary financing be granted on the same terms as the basic financing although the country's capacity for saving has altered? Or, will supplementary financing be adjusted to take account of the worsened conditions which have arisen for reasons beyond the country's control? Will it not be necessary in some cases to consider loans for longer periods or at lower rates of interest, so as not to place the country in difficulties with regard to the fulfilment of its obligations?

This whole concept is based on the need to face the consequences of an unexpected fall in exports. Projections are made on the basis of certain conditions, and when these conditions change supplementary financing comes into play. It is conceivable that, in certain specific cases, projections should be made bearing in mind a tendency for the terms of trade to deteriorate. It is not my intention to give, at this stage, any interpretation of the Bank's report or of the interesting paper recently read at Chatham House by Mr. Friedman; but I would like to ask this question: what would happen if a tendency for the terms of trade to deteriorate, which had not been observed at the time when a development plan was formulated, were to appear during its implementation? The Bank's study only mentions the case of a fall in exports, which may be due to a decrease in their physical volume or to a fall in prices and rightly offers supplementary financing as a means of dealing with the consequences. But I wonder what would happen if the fall in export prices were to coincide with a substantial increase in the price of imports, resulting in a decrease in the external purchasing power of a country. Could a country obtain supplementary financing in those circumstances? I take the liberty of putting these questions to Mr. Friedman, because I believe they will make it easier to understand the problem.

Lastly, without making an exhaustive analysis of the modalities of the scheme, I think it is important to examine the magnitude of the resources which the Bank recommends should be mobilized for supplementary financing. The study mentions an amount of $300 to $400 million a year, on the basis of previous experience and of a detailed analysis of export trends for a large group of countries. It also arrives at the conclusion that the average size of past fluctuations is about $1,600 million, and rightly maintains that part of this amount could be provided from monetary reserves, IMF drawings, other types of credit and, lastly, by restricting some imports. It is no doubt of the greatest importance to study this aspect of the question, but I believe that only when the scheme is put into operation will it be possible accurately to define the nature and magnitude of the resources that will have to be brought into play. I have the fullest confidence that the scheme is feasible and, what is more, that it can be effectively implemented. In this connexion, I should like merely to refer to import restrictions. In his recent work, Mr. Friedman speaks of the possibility of placing restrictions on certain superfluous or luxury imports. This is a point of great interest. Supplementary financing should be accompanied by a rational anti-cyclical policy to be pursued by the developing countries, which would use every means in their power to mitigate the consequences of external fluctuations and to avoid excessive indebtedness.

Everything possible must be done to ensure that international financial resources are used to cover the savings deficit or the difference between the investments a country wishes to make under its plan and the amount of internal resources it mobilizes. In any case, except in exceptional circumstances, these external resources must not be used to meet consumer needs, for sooner or later they will have to be repaid to the lending agencies; it is of the greatest importance that they should be used for investment, not for financing external payments deficits, although certain circumstances may make this inevitable. It is true that some countries have carried the policy of import substitutes to a point where no margin is left for restricting imports when an adverse movement of the cycle occurs. Other countries, however, still have a margin of imports which, although not necessarily luxury goods, could be reduced or deferred, because they are not indispensable for economic development. On the other hand, it would be difficult to curtail, for example, imports of semi-finished articles, essential consumer goods, or certain capital goods. Consideration should be given to this aspect, with a view to reducing the need for supplementary financing as much as possible. The criterion I am putting forward is not that of financial institutions, but the one which should guide the developing countries, because their investment needs are so great that it would be truly deplorable if resources of this kind were not used for investment.

The third aspect of the study to which I wish to refer is the connexion between supplementary financing and the basic or regular financing of a development plan. As I have said before, one of the main features of the Bank's proposals is the fact that the whole system is based on the idea of planning. We are well aware that the technique of good planning includes the projection not only of exports, but also of the internal savings which a country must mobilize to demonstrate its own effort under the development policy and also a projection of the external resources available for executing the plan. All these projections will, of course, be carefully scrutinized by the agencies concerned with the financing of a programme.

In addition to its technical character, this analysis has a very important implication. So far, save in a few exceptional cases, the policy has been to finance isolated projects without having any overall idea of the external contributions a country requires to carry out its plan. The fact that the projection of the external resources required for financing an economic development plan is accepted, means, if I am not mistaken, acceptance in principle of the idea that international lending agencies, when studying a plan as a whole, recognize the need to settle on a certain volume of external resources beforehand; in other words, while the essential idea of financing specific projects has not been abandoned, the need to decide beforehand the total amount of external aid which a programme or plan of five, six or seven years may require, now appears to be recognized. This seems to me to be of the greatest importance from the point of view not only of basic, but also of supplementary financing.

What does "supplementary" mean? It means that outside financial resources are added to those previously provided for under a plan. The determination of these basic resources is of special importance, since, if this fundamental principle is not accepted, supplementary financing may well be provided at the expense of the basic financing when, on the contrary, what is desired is the addition of supplementary to basic financing, in order to enable a country to carry on its development plan without any serious disruption. It is an accepted principle, which seems to me to be self-evident, that if a group of international institutions recognizes, in some form, the need to provide resources during the lifetime of a plan, it should make a thorough study of that plan, of its soundness as regards the objectives in view, of the resources required to carry it out and of its other characteristics.

I have previously referred to the need for a projection of the internal savings required for a plan. How far can the international lending agencies go in analysing purely domestic measures taken by a country? To what extent will countries submitting a plan be required to adopt a certain type of measure? These are matters which have long been under discussion.

Let us take the case of the mobilization of savings. It is obvious that in order to determine the amount of external resources, lending agencies must know the amount of internal resources, and the country in question must undertake to make its own efforts to obtain these resources. This is a matter entirely distinct from consideration of the domestic policy measures which a country will apply in order to fulfil its undertaking to mobilize its own savings.

Is a specific financial, credit, monetary or fiscal policy going to be demanded? Is it going to be decided how a country should manipulate its fiscal and monetary machinery in order to meet the savings projection, or is the country's undertaking to raise this predetermined amount sufficient? This is a matter of such importance that a dividing line must be drawn between the technical requirements of a plan and what may be called its political requirements. Since this is a point of the greatest importance and is essential in any development plan, I think that it will be discussed by this Committee not only from the point of view of supplementary financing proper, but also in a general context, since it relates to the whole concept of the financing of development plans.

I can give another example. A country may have special views on combining economic and social investments. There are countries which prefer to settle a pressing problem of low-cost housing before investing in directly productive projects. When considering a plan, should international credit institutions pass judgment on these aspects of it which concern a country's domestic policy? On the other hand, the difficulties encountered by a country in applying a particular policy within the framework of its conception of economic development can be assessed only in the light of the experience acquired by people of that country. All this suggests that a clear dividing line should be drawn between what should really be recognized as a fundamental requirement for the soundness of a plan and for its application - and no one could deny that the international credit institutions, must satisfy themselves that the plan is rational and feasible - and those other aspects which fall within a country's exclusive sovereign right of determination.

As I have said before, these matters have been widely discussed, and I might mention an experiment in that part of the world which I have so far known best, namely Latin America. When a few years ago, the Charter of Punta del Este was considered, from which the Alliance for Progress originated, a group of economists which had been consulted proposed that, without prejudice to the evaluation of economic development plans and their implementation by international credit institutions - which could not be deprived of the powers essential to them - plans should first be evaluated by a small group of impartial experts. The purpose was to ensure the greatest measure of objectivity in the analysis and at the same time to obtain impartial advice on certain fundamental aspects of economic development policy.

The idea was approved by the governments represented at Punta del Este, but not in the form in which it had been submitted: on the one hand, the number of experts was increased, but, on the other hand, the group was decapitated, in that it was deprived of a chairman. All this contributed to the failure to carry out this excellent project in the form in which it had originally been proposed by those who had conceived it.

A few days ago, at another inter-American meeting held at Buenos Aires, the idea was modified. The experts were reduced in number, and instead of acting as an independent group, they are to advise the Chairman of the inter-American Committee of the Alliance for Progress, an officer whose important duties include making recommendations on the allocation of the financial resources which the United States Government places at the disposal of Latin American countries. It is to be hoped that after this change the experts will continue to have a large measure of independence in evaluating plans and advising governments and credit agencies; this will make it possible for the experiment, which was begun a few years ago, to be refined, and for the group of experts to be very useful.

The initial proposal not only laid it down as an essential condition of external financing that a plan should exist, but also required that the plan should be submitted to the experts. These two conditions were abandoned at the time, possibly because the idea was very new, but perhaps experience shows that it would be advisable to reconsider them. I have ventured to recall this matter, because certain apprehensions I have noticed among some delegations of developing countries in this matter might perhaps be dispelled if it were considered desirable to set up machinery of that kind.

At any rate, the fact that a country reserves to itself certain domestic policy decisions which are its own inherent and inalienable prerogative, does not mean that it is not to that country's advantage, as experience shows, to receive technical assistance - which may be multilateral or bilateral according to choice - for the purpose of determining what kind of measures should be applied.

It will also be remembered that the regional economic commissions of the United Nations in the developing areas have established planning agencies capable of training staff and providing technical assistance to countries applying for it, with a view to advising them on programming. The International Bank, too, has an institute qualified to deal with these matters. But let me stress that this is technical, and in no case political assistance. The former is what the developing countries need; the latter is something that concerns them alone.

This Committee is meeting for only a very few days, and it cannot possibly consider all the important aspects of the Bank's report. You yourself, Mr. Chairman, in suggesting that an inter-governmental committee should be set up, have recognized the importance of the idea. I hope that the Committee on Financing and, thereafter, the Board, will approve the suggestion. However, it would also be valuable for this Committee to support, in a positive manner, the idea of supplementary financing as such, because the task of the experts would be considerably facilitated if the acceptance of the idea itself were to be taken as a starting point, which would not mean accepting all the details of the proposal. The experts would then not need to spend any time discussing whether supplementary financing is desirable or not. We all know that discussions involving decisions of that kind are always difficult. I think that this task would be made much easier if it were recognized that the Bank's report solves, in principle, the serious problem which the 1964 Conference laid before governments and which the delegations of the United Kingdom and Sweden took up. I believe, Mr. Chairman, that this would be one of the most important contributions the Committee could make, and it would define the scope of the study to be undertaken by the group of government experts, if the idea of setting up such a group is accepted.

ANNEX C

REMARKS BY MR. IRVING S. FRIEDMAN, THE ECONOMIC ADVISER TO THE PRESIDENT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT AT THE THIRTY-SECOND MEETING OF THE COMMITTEE ON 15 APRIL 1966

Mr. Chairman,

I am honoured to have been invited to participate in these meetings and I appreciate this opportunity which the Chairman has given me to address the Committee on some of the issues arising out of this Study that we were asked to undertake by the UNCTAD Conference in 1964.

I might say at the outset that we in the Bank would feel amply rewarded in our efforts if this Study contributes to a fruitful dialogue between developed and developing countries based on a concrete proposal as the distinguished Secretary General of UNCTAD was generous enough to suggest in his most illuminating opening address.

From the very beginning we tried to approach the problem that you had given to us realistically and objectively - our desire was to come up with a practical and feasible solution to a problem which had been one of major concern at UNCTAD. We wanted to devise a Scheme which was both economically sound and capable of achieving international acceptance. We assumed that more than theoretical perfection, what you wanted was a practical proposition based on economic facts, analysis and experience. It is, of course, gratifying and a source of considerable pleasure to us to hear the Secretary General and so many delegates from many countries express the view that the concrete proposal we have put forward provides a sensible practical approach to the problem which all of us are agreed is a major one. I believe that the comments made should assist very much in preparing an improved as well as a detailed and complete Scheme, including financing and administration. On behalf of the Bank staff, I take this opportunity to thank the Chairman and other members of the Committee for the very kind words of appreciation about our efforts, and the warm reception that they have given to our Study.

Mr. Chairman, I would like to turn to the questions that were raised by the members of the Committee. The questions raised reflect the seriousness and care with which the Scheme was studied. This meeting is providing an excellent opportunity for clarifying some of the aspects of the Study and the members of the Committee have focussed on the major aspects.

Part of the difficulty that some of the delegations have felt about some points of language in the Study is probably due to the fact that we presented the Study in the form of a working economic document which tries to present an economic analysis and an economic scheme, some of which is new, without the pretence of producing a legal text which could serve as the basis for formal international agreement. Some of our nomenclature has been questioned; I agree that the use of particular words should receive careful attention when preparing a formal text setting forth rights and obligations in an international agreement.

Perhaps another difficulty in studying the Scheme arose because we deliberately decided not to enter into detailed consideration of aspects which we believed could more appropriately be dealt with once initial international acceptance was reached on the basic aspects of the proposal.

In responding to the questions raised, it may be useful, Mr. Chairman, if I were to distinguish between those questions which relate to the basic nature of the proposal itself and those that are of a more technical nature in the sense that differences on these do not affect the fundamental character of the Scheme.

I shall take the more general basic questions first which I find easier and briefer to answer by making some general remarks rather than in a one by one question and answer form. Please excuse the length of my remarks and the inevitable repetition of material in our Study.

It was mentioned that supplementary finance must indeed be supplementary to the basic flows of long term development finance. (Incidentally, at this point, I would like to express our gratitude to Dr. Prebisch for giving us the word "basic" which is certainly better than the word "normal" development finance that we had used in the Study.) We could not agree more. As we said in the introductory chapter of our Study, "the Scheme set forth in the Study is predicated on the assumption that it would be supplementary to and not a substitute for already existing forms of aid". Supplementary finance, as we see it, can be meaningful only in the broader context of development finance. The flow of development finance under existing procedures is a major determinant of the volume of investment in the public and private sectors which a country can reasonably undertake; it helps a country achieve its growth objectives if the country perseveres in its development efforts. The purpose of supplementary finance, as set forth in the Scheme, is to help assure that the achievement of these objectives will not be frustrated because foreign exchange earnings from exports and invisible earnings, where appropriate, do not materialize in the amounts envisaged at the time the investment and aid decisions were made.

Our suggestion, in broadest terms, Mr. Chairman, is to institute a financial machinery which would insure the provision of the needed additional foreign exchange in sufficient time to substitute for the foreign exchange not earned because of the unexpected decline in export receipts which we defined for this purpose to include - I quote - "merchandise and, where appropriate, invisible items". Such additional assistance has only one purpose - the maintenance of good development programmes and policies. This is primarily why the heart of the Scheme that we propose is that the country and the international agency administering the Scheme would reach an understanding upon a development programme and a related set of development policies to be pursued by the country participating in the Scheme - the "policy package" as we have called it in our Study. I had the opportunity to explain what we meant by this idea of policy understandings to the meetings of the "31" and group B, but I think the point is important enough to bear repetition in this Committee. The policy package we have in mind would be arrived at in the course of close co-operation and exchange of views between the Agency and the country. It is not meant to be frozen at the time of its adoption. Nor can it be defined in general or detailed terms applicable uniformly to a great variety of countries falling into the categories of developing countries. As we said on page 9 of our Study, "the formulation of an agreed policy package should be based on a realistic evaluation of the member's needs and possibilities and a pragmatic assessment of the effectiveness of the proposed measures for achieving the objectives of the development programme. The agreements could be essentially of the same scope and character as are fundamentally necessary for extending broad support in development finance to a country". I think this provides the answer to the question whether we might be thinking of a distinct set of policy understandings for the special purposes of supplementary financing scheme alone. We are not. The criteria which we believe should determine the flows of basic development finance would be the ones that determine the flow of supplementary finance. As we all know, development finance embraces all development activity, and this is why the policy understanding cannot be limited to export policies alone, but has to cover the whole gamut of development policy. What is important here is the commitment of the government of a country to good performance, and as we said - and I quote - "good performance, rather widely conceived, would then be the basis for the necessary judgment". (page 39). We do not, of course, anticipate any "control" by the Agency of countries' policies. The policy understanding that is reached is arrived at through constant consultations, interchange of knowledge and views. The Agency would be an international one with an international responsibility accountable to the community of nations. It would be set up to do a job and would have no axe to grind except a common interest in development.

I was glad to note that there seems to exist general agreement that the promotion of economic development on the basis of foreign assistance is a "joint enterprise", involving the extenders and recipients of such assistance. It is our belief - and this is a fundamental assumption for the viability of the Scheme - that our proposed understanding on the development programme and related policies can be reached objectively and professionally through international consultation and collaboration. It may well prove that through this mechanism the development effort of a country will command support in a way that a programme put together by the recipient countries themselves cannot be expected to do. Lest I be misunderstood to imply that all developing countries are expected to have highly comprehensive plans for the whole economy before they can join the Scheme, let me definitively state that we recognize and appreciate that in many countries there might not be an adequate statistical base to permit such plans. In some cases the political and social character of the country might make developmental programming inappropriate. In these cases a partial public investment programme may be agreed upon combined with estimates of the likely developments in the private sector to permit the formulation of the policy understanding. The approach of the Scheme is pragmatic and does not purport to have rigid standards to be universally applied in a uniform manner.

Dr. Prebisch has usefully suggested that it may be possible to find a boundary between those policies of a technical nature where this collaboration could take place and the political sphere in which only the wishes of the country itself can be the best judge of the decision to be taken.

As a number of delegates have noted, this type of collaboration is not new. It is already taking place in the relationships of the countries to the existing international bodies. All that we have proposed here derives from our experience in dealing with our member countries. In the meeting of the groups that I had the privilege to attend, I tried to indicate some of the ways in which our own activities in the World Bank group are similar to what is being proposed in the Scheme. Thus, as we say in the Study "the agreement on development programmes and related policies proposed in the Scheme would amount to an extension and strengthening of the existing procedures with member countries rather than the institution of an entirely new process. It would involve, as do these existing procedures, close collaboration with the work done by the IBRD, the IMF and other international agencies". As some delegations have noted, these procedures of international understanding and collaboration are not peculiar to developing countries alone, but apply to developed countries participating in various international support mechanisms as well.

This brings me to the operational significance that this idea of policy understanding enjoys in the Scheme. The unexpected shortfall for which financing is to be provided under the Scheme has two basic characteristics: (i) it should be potentially disruptive to the development programme of the country and (ii) it should be beyond its control. Operational meaning of these requirements is given through these policy understandings. Instead of having these reached after unexpected shortfalls, the Scheme suggests that they be reached before the adverse movements take place so that the needed assistance can be timely as well as adequate. This permits the adoption of the rule that as long as the country is acting within the mutually understood frame of reference all unexpected shortfalls can be considered beyond the country's control.

The suggestion has been made that the effect of the Scheme might be to deter a country from taking fundamental measures to get at the roots of the problems created by concentration on a few primary products. This, of course, is not the intent, nor, do we believe, would be the effects of the Scheme. As we said in the Study, "the familiar problems of the instability and sluggish growth of the export receipts of developing countries can in the long run only be solved through sustained development and diversification of the production and exports of primary product exporting countries". Mr. Chairman, I need not elaborate this point in this meeting. As we all know, this process of diversification and domestic transformation is a long one. The purpose of the Scheme, as we see it, is to facilitate this long-term fundamental task by eliminating or significantly reducing the adverse consequences in the poorer countries of the chronic uncertainty to which their development process is frequently vulnerable, i.e. unexpected shortfalls in their export receipts.

To provide a mechanism for financial insurance to deal with unexpected export shortfalls is not to deny the place of other arrangements which might reduce the amplitude of fluctuations in primary products or contribute to the long term goal of diversification. We agree with a number of delegations and the representative of the International Tin Council who expressed the views that there is no conflict involved here. These approaches are complementary and can be simultaneously undertaken to the greater effectiveness of each other. In fact, our own attitude to these arrangements is unequivocally positive - for example, as some of you know, in collaboration with the International Coffee Organization and the FAO we are ourselves actively involved in a major inquiry into the coffee problem and how careful development might attack the roots of the problem.

A last general point. It has been suggested that the Scheme in its determination of export shortfalls should also take into account unexpected changes in import prices. In working out the Scheme we gave the matter considerable thought. We concluded, and I quote, "ideally, export shortfalls probably should be calculated in real terms, that is after taking account of unexpected movements in import prices, because this would indicate the unexpected change in the ability to purchase a given volume of imports resulting from an unexpected decline in export proceeds". In practice, however, it is often difficult to take this factor into account, because for most developing countries, import indices are not easy to come by. It is quite conceivable that the Agency through experience could develop the statistical base which would permit a thorough inquiry into the nature and the extent of the problem. The Agency might eventually decide, if experience indicated the need and technical difficulties had been overcome, to calculate shortfalls in real rather than nominal terms, which could take care of this problem.

I must emphasize that export shortfalls, including where appropriate earnings from invisibles, is the only uncertainty, however broadly defined, to which our proposal is addressed. There are, of course, a number of other uncertainties associated with the process of development but we believe that the solution of this - the most important uncertainty - would significantly contribute to the growth of developing nations and might well facilitate finding a solution to the other uncertainties, if the international community desires to do so.

With your permission, Mr. Chairman, I would like now to turn to some of the more technical points which were raised during the meeting.

First, there is the question of "overages". Some have suggested that we have treated them too kindly, while others have suggested that we have not treated them kindly enough. It has been suggested that, under present circumstances, countries should be allowed to use overages to finance the import of capital goods. I believe this suggestion results from the fear that the flows of development finance may continue to be inadequate; the use of the overages would thus provide needed foreign exchange. On the other hand, the reason we had for allowing for the deduction of overages from shortfalls during the same projection period was that development financing would be available for good development programmes. In addition, under the Scheme the international community would not be asked to do what a developing country could do for itself in the supplementary financing scheme without injuring its development effort. It is the need to avoid slowing up the development programme because of unexpected decline in foreign exchange availabilities that we are trying to avoid during the projection period.

Questions were also raised about the advisability of the rule that overages should not be carried over from one projection period to the next one. This we did because we felt that it would provide a measure of incentive for developing countries to try harder to take measures to step up exportation. Overages which result in excessive reserves would either reduce the level of long-term finance needed from abroad or make possible some acceleration in growth in future projection periods.

A question was raised as to why not revise export projections every year in order to reduce the deviations from expected trends. Given the usefulness of a long-term development plan or policies, a yearly revision in export projections underlying the investment and procurement decisions would be self-defeating. Investment calculations must be based on export projections and the length of the latter by its very nature must be tied to the former, namely investment calculations. We have therefore suggested that during the operation of the development plan the underlying export projection should not be subject to revision, except of course when certain intensive structural changes warrant a major restructuring of the investment pattern and development strategy. I may here briefly touch upon the subject of the feasibility of making export projections. Many countries are already used to making projections to provide a basis on which investment programmes can be built. Our own experience in this field has been considerable and shows that usable export projections can be made to establish reasonable expectations for the purposes of the Scheme. Their quality could of course be improved, and as for our own projection work, we are constantly trying to improve our analytical tools as more statistical data are made available and our knowledge of countries deepens.

I now come to the question about the terms of financing. Our view on this subject is a natural by-product of our view that supplementary finance should be treated on the same basis as development finance. Just as over the years we have been arguing for terms of basic development finance to be tailored to the overall financial and economic position of the country as reflected by its debt servicing capacity and other economic factors, in considering the terms of financing for this specific purpose, we felt that same considerations should apply. The UNCTAD Resolution has asked us that terms should be "concessional and flexible". We suggest flexible terms but at the same time the Study explicitly states that "although the terms vary from case to case, the Scheme should be prepared to extend funds on concessional terms in many countries". In this way it would be possible to take into account the necessity of avoiding the possibility that supplementary finance might aggravate the indebtedness problem of a country, and at the same time meet the need for economizing on the use of funds of a concessional nature. In our view it is primarily the capacity of a country to service debt that ought to determine the terms on which it receives all development finance -- basic and supplementary.

The characteristics of the Scheme as a residual lender was the subject of consideration by a number of delegates. This is indeed a point which - given the general acceptance of the Scheme - would require detailed examination. There is in most cases some scope for the country to take some measures of a marginal character which contribute to solve the problem of the shortfall without resulting in a disruption of the development programme. We were glad to hear from Dr. Prebisch that he supports this position. There might be the uses of its own reserves - if they were at a level which could be considered above the normal needs - or the recourse to other sources of financing. There might be situations in which, due to the indebtedness position of the country, it might be even considered inappropriate for the country to borrow on short term. The Study reiterates that there would be a close collaboration between the Agency and the other international financial agencies, so that the utilization of their facilities would be integrated in the working of the mechanism of supplementary financing which - being a species of development finance - has necessarily a long-term character, as we have had occasion to point out. This approach - where the access to other sources of finance has been envisaged beforehand - is one of the elements which allow the provision of the needed finance by the Scheme with certainty and speed.

The repeated references to the possibility of a time-consuming sequence in the utilization of other sources of finance which might be available for the financing of the unexpected shortfall have convinced me that some parts of the Report do not convey the idea which is clearly expressed in page 8 of the Study. In the first paragraph of page 8 the Study states "the Agency would have the essential objective of the Scheme, i.e., to provide needed finance with certainty and speed on appropriate terms in order to avoid disruption of development programmes, so long as members act in accordance with agreed development policies". On the same page in the section dealing with the "effective understanding with the Agency" it is specifically noted in (iii) that the use of available reserves and other sources of external credit would be part of this understanding. Since this understanding would be formulated at the beginning of the projection period the problem of ascertaining what other possible sources of external credit would be available would not be left to the time of the export shortfall. The Report repeatedly emphasizes that the Scheme provides for certainty, adequacy and timeliness in providing the needed assistance to meet the shortfalls.

Then there is the question of the estimated amount of $300-400 million annually which is indicated in the Study as sufficient to start the operations of the Scheme during the first five years. As you know, we said in the Study - and I quote - "the amounts suggested might of course prove inadequate or turn out to be excessive". The approximation that we suggested was the result of a careful analysis and was a considered judgment. A number of representatives indicated their agreement with this judgment; some doubts were however, expressed by a few. It is conceivable that the countries providing funds might prefer to adopt a different attitude towards the determination of the initial magnitude of the Scheme. However, a more precise judgment of the possible financial demands on the Scheme can only be done after the operative details of the Scheme have been spelled out. The amount we suggested was derived from our conception of the character and scope of the Scheme.

Perhaps it should be emphasized that the contribution of a supplementary financial scheme to the growth of the developing countries cannot be measured only in terms of the absolute amount of funds which might possibly be loaned out to a country under the Scheme. It is the confidence that good development programmes and policies can go forward without fear of the effects of a major upset from unexpected declines in export earnings and the results of the close collaboration between extenders and recipients of development finance that are the most important benefits of the Scheme.

May I approach the end of my remarks with a reference to the nature of the Agency which would administer the Scheme. The Study deliberately did not address itself to this question because it felt that the choice of the Agency could be best made after the exact countries had decided what tasks they wished the Agency to perform. Thus, no significance should be attached in one way or another to the fact that the International Development Association - which was mentioned in the UNCTAD Resolution - was not indicated in the Bank staff Study as the administering agency for the Scheme. We certainly agree, of course, with the point that the Agency is important in the operations of the Scheme.

May I finish by saying that my colleagues and I have been glad to have been of some help to you in coping with your highly important and urgent responsibility and that we remain at the disposal of the Committee for further clarification.

Perhaps I may be allowed to make a personal remark not pertinent to any question raised. I was most glad to hear a number of statements from donor and recipient countries stressing the need to increase the flow of basic development finance and to extend this assistance on more concessional terms.

ANNEX D

LIST OF REPRESENTATIVES AND OBSERVERS AT THE RESUMED FIRST SESSION

LIST OF REPRESENTATIVES[1]

ARGENTINE

Representante:	Sr. Fernando G. LERENA Secretaria de Commercio
Representantes suplentes:	Sr. Juan Carlos ARLIA Mision permanente, Ginebra
	Sr. Luis M. LAURELLI Ministerio de Relaciones Exteriores

AUSTRALIE

Representative:	Mr. J. C. LLOYD Assistant Financial Counsellor Office of the High Commissioner, London
Alternate representatives:	Mr. P. N. HUTTON Counsellor Permanent Mission, Geneva
	Mr. P. D. FELLS Department of the Treasury

BELGIQUE

Représentant:	M. R. van HAUWERMEIREN Conseiller d'Ambassade
Représentants suppléants:	M. L. MEULEMANS Directeur au Ministére des Finances
	M. W. STOOP Conseiller à la Banque Nationale

BRESIL

Representative:	Mr. Luiz A. P. SOUTO-MAIOR First Secretary Permanent Mission, Geneva

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[1] The members of the Committee are: Argentina, Australia, Belgium, Brazil, Cameroon, Canada, China, Congo (Democratic Republic of), Czechoslovakia, Ecuador, El Salvador, Federal Republic of Germany, Finland, France, Ghana, India, Israel, Italy, Japan, Kuwait, Lebanon, Mali, Maroc, Mexico, Netherlands, Peru, Poland, Republic of Korea, Republic of Viet-Nam, Romania, Spain, Sudan, Sweden, Switzerland, United Republic of Tanzania, Trinidad and Tobago, Tunisia, Turkey, Uganda, Ukrainian Soviet Socialist Republic, Union of Soviet Socialist Republics, United Arab Republic, United Kingdom of Great Britain and Northern Ireland, United States of America and Yugoslavia.

BRESIL (continued)

Alternate representatives:	Mr. Luiz Paulo LINDENBERG SETTE Second Secretary Embassy, London
	Mr. Fabio Antonio da Silva REIS Division of International Affairs Central Bank of the Republic of Brazil
Adviser:	Mr Carlos Henrique P. PRATES Second Secretary Permanent Mission, Geneva

CANADA

Representative:	Mr. D. S. MCPHAIL First Secretary Permanent Mission, Geneva
Adviser:	Mr. A. J. DARLING Department of Finance

CHINE

Representative:	Mr. Peter B. T. CHANG Counsellor Permanent Mission, Geneva
Alternate representative:	Mr. Hsin-pao CHIA Assistant General Manager Banking Department, Central Bank of China

EL SALVADOR

Representante:	S.E. Sr. Gustavo A. GUERRERO Representante permanente en Ginebra

EQUATEUR

Representante:	S.E. Dr. don José Ricardo MARTINEZ COBO Delegado permanente en Ginebra

ESPAGNE

Representante:	Sr. José Electo GARCIA TEJEDOR Delegado Permanente Adjunto cerca de las Organizaciones Internacionales con sede en Ginebra
Representantes suplentes:	Sr. Huberto VILLAR Director del Gabinete de Relaciones Internacionales de la Secretaría General Técnica del Ministerio de Comercio
	Sr. Carlos Franco BORES Misíon Permanente, Ginebra
	Sr. José Ma Alvarez de EULATE Secretaría General Técnica del Ministerio de Hacienda
	Sr. Miguel JABALA Secretario de Embajada Misíon Permanente, Ginebra
	Sr. Eduardo MOYA Attaché commercial Misíon Permanente, Ginebra

ETATS-UJIS D'AMERIQUE

Representative:	Mr. Jo W. SAXE Associate Assistant Administrator for Multilateral AID Programs, Agency for International Development
Advisers:	Mr. Thomas W. LAMB Second Secretary Permanent Mission, Geneva
	Mr. William F. COURTNEY Office of International Monetary Affairs Department of State
	Mr. Emmett J. RICE Acting Director Office of Developing Nations Department of the Treasury
	Miss Alice MAY United States Mission to the OECD

FINLANDE

Representative	H.E. Mr. Pentti TALVITIE Permanent Representative, Geneva
Alternate representatives:	Mr. Esko LIPPONEN Secretary of Embassy Permanent Mission, Geneva
	Mr. Kalevi KAILASVUORI Research Fellow, Bank of Finland Institute for Economic Research
Adviser:	Mr. Kari WALDEN Bank of Finland

FRANCE

Représentant:	M.G. NEBOT Administrateur civil au Ministère des Finances
Représentants suppléants:	M.J. CLEMENT Représentant permanent adjoint, Genève
	M.L.R. JOSPIN Secrétaire des Affaires étrangères
	M. CALOUD Directeur des services étrangers de la Banque de France

GHANA

Representative:	H.E. Mr. R.M. AKWEI Permanent Representative, Geneva
Alternate representatives:	Mr. J.A. KUNTOH First Secretary Permanent Mission, Geneva
	Mr. D.Y. MENSAH Second Secretary Permanent Mission, Geneva

INDE

Representative:	Mr. B.N. SWARUP Deputy Permanent Representative, Geneva
Alternate representative:	Mr. K.G. VAIDYA Joint Director Ministry of Commerce
Adviser:	Mr. GOPINATH Vice Consul Consulate-General, Geneva

ISRAEL

Representative:	Mrs. Fanny GINOR Economic Adviser to the Bank of Israel
Alternate representative:	Mr. E.F. HARAN Deputy Permanent Delegate, Geneva
Adviser:	Mr. M.N. BAVLY Second Secretary, Permanent Mission, Geneva

ITALIE

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Représentant suppléant:	Mr. Boris BIANCHERI Ministère des Affaires Etrangers
Conseillers:	Mlle. Fernanda FORCIGNANO Ministère du Trésor M. Salvatore COLETTA Ministère du Commerce Extérieur Mlle. Renata DONADI Ministère du Budjet Mr. Alfredo GINEX Banque d'Italie M. Reginaldo MUNAFO Mission permanente, Genève

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Representative:	Mr. Sashichiro MATSUI Minister United Nations Bureau Ministry of Foreign Affairs
Advisers:	Mr. Kiichi WATANABE Secretary Co-ordination Section, International Finance Bureau, Ministry of Finance
	Mr. Takakazu KURIYAMA First Secretary Permanent Mission, New York
	Mr. Takehiko NISHIYAMA Second Secretary Permanent Delegation to the OECD, Paris
	Mr. Toshitaka TADA Second Secretary Permanent Mission, Geneva
	Mr. Masamichi HANABUSA Secretary Planning Section, Economic Co-operation Bureau, Ministry of Foreign Affairs
	Mr. Fumio KANBE Secretary Economic Co-operation Planning Section Trade Development Bureau Ministry of International Trade and Industry

LIBAN

Représentant	S.E.M. Hassib AL-ABDALLAH Représentant permanent, Genève

MAROC

Représentant:	M. Mohamed GUESSOUS Inspecteur des Finances

MEXIQUE

Representante:	Sr. Praxedis REYNA HERMOSILLO Gerente del Banco de México, S.A.

OUGANDA

Representative:	Mr. L.K. MWANGA Uganda High Commission, London

PAYS-BAS

Representative:	Mr. J. EVERTS Director of Financial-economic Development Aid Ministry of Foreign Affairs
Alternate representative:	Mr. J. KAUFMANN Permanent Representative, Geneva
Advisers:	Mr. C. VAN DER TAK Ministry of Finance
	Mr. K.J. BORDEWIJK Ministry of Economic Affairs

PEROU

Representante:	S.E. Sr. Jose Antonio ENCINAS DEL PANDO Representante permanente en Ginebra
Representante suplente:	Sr. Jose Carlos MARIATEGUI Primer Secretario Mision permanente en Ginebra

POLOGNE

Representative:	Mr. Wojciech PLAWECKI Deputy Director Ministry of Finance
Alternate representative:	Mr. Jerzy BILINSKI Counsellor Ministry of Foreign Trade

REPUBLIQUE ARABE UNIE

Representative:	Mr. Nazmi Abdel HAMID Deputy Governor Central Bank of Egypt
Alternate representatives:	Mr. Henri TADROS Director Central Bank of Egypt
	Mr. Saïd Talaat HARB Commercial Councillor Permanent Mission, Geneva
	Mr. Farouk MAKHLOUF Commercial Secretary Permanent Mission, Geneva

REPUBLIQUE DE COREE

Representative:	Mr. Kwang Je CHO Second Secretary Permanent Mission, Geneva

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Advisers:	Mr. Karl Heinz LEHMANN Federal Ministry of Economic Affairs
	Mr. Hans O. SCHULTE Federal Ministry for Finance
	Mr. Hubert LINHART Federal Ministry of Economic Co-operation
	Mr. Heino WINCKLER Federal Bank

REPUBLIQUE SOCIALISTE
SOVIETIQUE D'UKRAINE

Representative:	Mr. A.A. BOIKO Member of the Collegium Head of Department Ministry for Foreign Affairs
Alternate representative:	Mr. D.A. VOVKO Head of Department State Planning Commission

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Représentant suppléant:	M.Ion CHIRITZESCU Directeur-Adjoint de la Direction des Etudes au Ministère des Finances

ROYAUME-UNI DE GRANDE-BRETAGNE
ET D'IRLANDE DU NORD

Representative:	Mr. J. MARK Under-Secretary Ministry of Overseas Development
Alternate representative:	Mr. R. MARRIS Economic Planning Staff Ministry of Overseas Development
Advisers:	Mr.P.H.R. MARSHALL Counsellor Permanent Mission,Geneva
	Mr. T.A. KENNEDY Economic Adviser Foreign Office
	Mr. J.H.R.EVANS Second Secretary Permanent Mission,Geneva
	Mr. J.A. FAINT Assistant Principal Ministry of Overseas Development

SUEDE

Representative:	Mr. H. LUNDSTROM Head of Department Ministry of Finance
Alternate representative:	Mr. H.V. EWERLOF First Secretary of Embassy, Permanent Mission, Geneva
Advisers:	Mr. B. KJELLEN First Secretary Ministry for Foreign Affairs
	Mr. B. WRANGMARK Board of Commerce

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Représentant suppléant:	M. Arthur DUNKEL Division du commerce
Conseiller:	M. Richard ULRICH Administration des finances

TCHECOSLOVAQUIE

Representative:	Mr. Vladimír KVASNICKA Deputy Head of Department Ministry of Finance
Alternate representative:	Mr. Juraj KRALIK Deputy Permanent Representative Permanent Mission, Geneva

TRINITE ET TOBAGO

Representative:	Mr. Frank RAMPERSAD Senior Economist Economic and Planning Division Office of the Prime Minister
Alternate representative:	Mr. Eustace SEIGNORET Counsellor Permanent Mission, Geneva

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Représentant:	M. Hedi ENNEIFER Sous-directeur des études et de la recherche à la Banque centrale de Tunisie
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	M. Mouheddine MOUAKHAR Attaché Mission permanent, Genève

TURQUIE

Representative:	Mr. Nurettin KARAKOYLU Deputy Director General Second Economic Department Ministry of Foreign Affairs
Alternate representatives:	Mr. Uner KIRDAR Director of Section Ministry of Foreign Affairs
	Mr. Muammer AKINCI Economic Adviser Turkish Representation to GATT

TURQUIE (continued)

Advisers:	Mr. Hüsnü KIZILYALILI Deputy Director General of the Treasury Ministry of Finance
	Mr. Oktay AKSOY First Secretary Permanent Mission, Geneva
	Mr. Aydemir ALPKAYA First Secretary Turkish Representation to GATT

UNION DES REPUBLIQUES SOCIALISTES SOVIETIQUES

Representative:	Mr. B.V. MAIOROV Deputy Chief Foreign Exchange Department Ministry of Foreign Trade
Alternate representatives:	Mr. A.S. KOROLENKO Counsellor Permanent Mission, Geneva
	Mr. V.A. PEROV Expert, Department of International Economic Organizations Ministry of Foreign Trade
Advisers:	Mrs. N.V. LYUSHINA Senior Economist Foreign Exchange Department Ministry of Foreign Trade
	Mr. I.N. BORISOV Ministry of Foreign Trade
	Mr. V.S. SIMAKOV Ministry of Foreign Trade

YOUGOSLAVIE

Representative:	H.E. Mr. Stanislav KOPCOK Permanent Representative, Geneva
Alternate representative:	Mr. Mirko MERHOLJA National Bank of Yugoslavia
Advisers:	Mr. Kazimir VIDAS Counsellor Permanent Mission, Geneva
	Mr. Ratomir DODIC Federal Secretariat for Finance
	Mrs. Nada ZIVANOVIC National Bank of Yugoslavia

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AUTRICHE

Observer:	Mr. Johannes POTOCNIK Permanent Mission, Geneva

CAMBODGE

Observateur:	M. Boun-hak KHAOU Inspecteur des services économiques Direction du Commerce Extérieur

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DANEMARK

Observer:	Mr. E. Hübertz CHRISTENSEN Secretary of Embassy Permanent Mission, Geneva

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IRAN

Observateur:	M. Ali-Asghar BAHRAMBEYGUI Troisième Secrétaire Mission permanente, Genève

JAMAIQUE

Observers:	Mr. P.V. MARSH
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Permanent Mission, Geneva
Miss Janice SLYFIELD
Third Secretary
Permanent Mission, Geneva

NICARAGUA

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Consul de Nicaragua, en Ginebra

NIGERIA

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First Secretary (Commercial)
Permanent Mission, Geneva

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Observers: Mr. Magne REED
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Permanent Mission, Geneva

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Observateur:	M. Arménio FONSECA LOPES Directeur à la Banque de Portugal

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Observador:	S.E. Sr. Mateo J. MAGARIÑOS de MELLO Representante Permanente, Ginebra

VENEZUELA

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	Sr. Augusto HERNANDEZ Segundo Secretario Misión permanente, Ginebra
	Sr. Consuelo MOUEL Segundo Secretario Misión permanente, Ginebra

SPECIALIZED AGENCIES

ORGANISATION DES NATIONS UNIES POUR L'ALIMENTATION ET L'AGRICULTURE	Mr. Stefano D'AMICO Senior Economist Commodities Division
BANQUE INTERNATIONALE POUR LA RECONSTRUCTION ET LE DEVELOPPEMENT	Mr. Irving S. FRIEDMAN The Economic Adviser to the President
	Mr. Arthur KARASZ Deputy Special Representative in Europe
	Mr. Paulo H. PEREIRA-LIRA Office of the President
	Mr. Bimal N. JALAN Economic Department
	Mr. Heinrich T. ZIEGLER European Office
FONDS MONETAIRE INTERNATIONAL	Mr. Edgar JONES Representative in Geneva
	Mr. J. Marcus FLEMING Deputy Director Research and Statistics Department

* * * * * * * * * * *

ACCORD GENERAL SUR LES TARIFS DOUANIERS ET LE COMMERCE	Mr. A. BALENSI Assistant Director-General for External relations
	Mr. C. SHIH Director Development Division
	Mr. J. TUMLIR Counsellor Development Division

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Commission:	M. M. SCHAEFFER Chef de Division à la Direction Générale VIII
Conseillers - Conseil:	M. K.D. JAGSTAIDT Secrétariat Général des Conseils
	M. M. GLEIZES Secrétariat Général des Conseils
Commission:	M. V. COMPAGNONE Direction Générale II
BANQUE INTERAMERICAINE DE DEVELOPPEMENT	Sr. Guy DOUYON Sub-director Division desarrollo economico y social
UNION INTERNATIONALE POUR LA PROTECTION DE LA PROPRIETE INDUSTRIELLE	Mr. Ross WOODLEY Counsellor Head of the Industrial Property Division
	Mr. Vladimir DOLEZIL Industrial Property Division
LIGUE DES ETATS ARABES	M. M. EL WAKIL Représentant permanent à Genève
	M. Fawzi SAMI Membre de la Délégation
ORGANISATION DE COOPERATION ET DE DEVELOPPEMENT ECONOMIQUES	Mr. Francis BLACK Counsellor Office of the Secretary-General
	Mr. D. BEIER Administrator Development Department
CONSEIL INTERNATIONAL DE L'ETAIN	Mr. H.W. ALLEN Chairman

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CHAMBRE DE COMMERCE INTERNATIONALE	M. Jean MIKOLAJCZAK Président Commission des Produits de Base et des Matières Premières de la CCI
	M. Pierre GUILLAUME Rapporteur Commission des Produits de Base et des Matières Premières de la CCI Directeur Adjoint Union des Industries des Métaux non-Ferreux
	Prof. Jacques l'HUILLIER Consultant Permanent de la CCI auprès de l'Office Européen des Nations Unies Professeur d'Economie Politique Université de Genève
CONFEDERATION INTERNATIONALE DES SYNDICATS CHRETIENS	M. G. EGGERMANN Représentant Permanent, Genève
FEDERATION MONDIALE DES ASSOCIATIONS POUR LES NATIONS UNIES	Mr. Michael MILDE Assistant to the Secretary-General
INTERNATIONAL BAR ASSOCIATION	Mr. Michael BRANDON Representative of the International Bar Association to the United Nations Office at Geneva
ORGANISATION INTERNATIONALE DES EMPLOYEURS	Mr. Jean-Jacques OECHSLIN Assistant to the Secretary-General

ANNEX E

LIST OF DOCUMENTS ISSUED FOR THE RESUMED FIRST SESSION

General Documents

Symbol	Title of Document
TD/B/C.3/13/Add.1	Agenda - Note by the Secretary-General of UNCTAD
TD/B/C.3/19	Consideration of the report of the International Bank for Reconstruction and Development on its study of a scheme for supplementary financing - Note by the Secretary-General of UNCTAD
TD/B/C.3/20 and Corr.1 (Spanish only)	Statement by Dr. Raul Prebisch, Secretary-General of UNCTAD, at the twenty-eighth plenary meeting of the Committee on 13 April 1966
TD/B/C.3/21	Report of the Bureau of the Committee on Credentials
TD/B/73 TD/B/C.3/22	Report of the Committee on Invisibles and Financing related to Trade on its resumed first session

Limited Documents

Symbol	Title of Document
TD/B/C.3/L.25/Rev.1	Draft provisional agenda for the second session of the Committee
TD/B/C.3/L.30	Remarks by Mr. Irving S. Friedman, The Economic Adviser to the President of the International Bank for Reconstruction and Development at the thirty-second plenary meeting of the Committee on 15 April 1966
TD/B/C.3/L.31 and Add.1	Draft report of the Committee on Invisibles and Financing related to Trade on its resumed first session
TD/B/C.3/L.32 and Rev 1 (Spanish only)	Supplementary financial measures - joint draft resolution submitted by: Brazil, India, Sweden, United Arab Republic, United Kingdom of Great Britain and Northern Ireland, Yugoslavia
and Add.1	Ecuador, El Salvador, Peru and Uganda added to the list of sponsors.
TD/B/C.3/L.33	Financial implications of actions of the Committee

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Symbol	Title of Document
TD/B/C.3/INF.2	List of representatives and observers at the resumed first session

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Symbol	Title of Document
(TD/B/NGO/4 (TD/B/C.3/NGO/3	Statement entitled "Multi-lateral investment guarantees" presented by the International Chamber of Commerce

Symbol	Title of Document
TD/B/C.3/NGO/4	Statement entitled "Supplementary financing" presented by the International Chamber of Commerce
TD/B/C.3/NGO/5	Statement entitled "The promotion of economic growth in developing countries by fiscal methods" presented by the International Chamber of Commerce

Distr.
GENERAL

TD/B/C.3/20
13 April 1966

Original: SPANISH

United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD
Committee on Invisibles and Financing related to Trade
Resumed first session
Geneva, 13-20 April 1966.

STATEMENT BY DR. RAUL PREBISCH
SECRETARY-GENERAL OF UNCTAD,
AT THE TWENTY-EIGHTH PLENARY MEETING OF THE COMMITTEE
ON 13 APRIL 1966

Mr. Chairman,

I thank you for giving me the floor to speak on the Study by the International Bank for Reconstruction and Development on Supplementary Financial Measures, the importance of which you have rightly stressed. This report, which the Committee is going to consider at its present meeting, is of great significance, not only because of the subject matter itself, but also because this is the first opportunity UNCTAD has had since the 1964 Conference of engaging in a discussion which will no doubt be very fruitful.

It will be recalled that, at the Geneva Conference the developing countries stressed the need for measures against the continual fluctuations in the external sector of their economy. It was in response to that concern that the United Kingdom and Swedish delegations submitted a draft resolution which led to the report we are now about to examine. The discussion therefore has a concrete proposal as its starting point.

It is a matter for satisfaction that UNCTAD is thus entering a new field of activity. It has been repeatedly stressed that UNCTAD should not be merely a forum for the discussion of problems, but also an adequate instrument for solving them in practice. Hence the great significance of this meeting of the Committee, which is called upon to study a programme and a practical solution presented to us with all the authority of the International Bank.

I should like to deal with three aspects of the report. First, an examination of the proposal itself. Second, its nature and characteristics. Third, the relationship between this scheme for supplementary financing and the basic financing of economic development plans.

On the first point, we should consider whether the idea of supplementary financing which emerged from the 1964 Conference provides the best means of counteracting the effects of fluctuations in the external sector of the developing countries. I have no hesitation in saying that it is an adequate solution and perfectly compatible with other methods of reducing the extent of these fluctuations. I refer, in particular, to the arrangements or agreements relating to primary commodities, in other words to the organization of markets. I do not believe that these agreements offer an alternative to supplementary financing, but merely another convergent means of solving the problem of external fluctuations. I say this for two reasons. First, because not all primary commodities can be the subject of stabilization agreements and secondly, because these agreements are not generally intended to establish a fixed price, but rather a maximum and minimum between which market prices can continue to fluctuate. This is true of the cocoa agreement which UNCTAD is now considering with, I am sure, very good prospects of overcoming the differences which still divide the countries interested in that commodity.

Accordingly, even where satisfactory commodity agreements are arrived at, there will still be a margin of fluctuation which will require supplementary financing to obviate the effects of such fluctuation on the economy of developing countries.

The Study submitted by the Bank has the unquestionable merit of frankly recognizing that it is very difficult, if not impossible, to formulate a systematic economic development policy and apply it in a development plan, if all the fundamental calculations for the plan are upset by external fluctuations. This constitutes a very positive contribution to the solution of one of the most serious problems facing the developing countries.

I should now like to examine briefly some of the main characteristics or modalities, of the Bank's study. It is essentially based on a projection of a country's exports. The idea that the projection of exports constitutes an essential element of any economic development plan is fully accepted, so that there is no need to discuss it, although, from the technical point of view, there may be differences of opinion regarding the methods used (or which should be used) in making the projections or the criterion on which this work should be based.

The Bank has used the projection method to determine the magnitude of the supplementary financing. At the same time, it has used it to introduce the closely related concept of exports which at a given moment are larger than those forecast in the projection. The Bank uses the term "overages" - i.e. excesses - to describe this and considers that the excess of exports over the projected figures must subsequently be taken into account in determining the amount of supplementary financing which a country should receive when there is a shortfall. This means that there would be some off-setting between a present deficit and a past surplus with respect to the projected figures. This point should be examined in detail. What will a country do when its exports exceed the projected figures? Will it accumulate additional monetary reserves if its reserves are already at a satisfactory level? Will it increase its reserves and await a fall in exports to bring them into play? Will it invest the reserves if they appear excessive in the light of the country's experience, or will it use them to import capital goods?

In the thirties, when I had played some part in my country's Central Bank, I had occasion to recommend an anti-cyclical policy based on the formation of additional monetary reserves during the upward phase of the cycle, when exports are increasing, so as to have resources available to face the downward phase. To this end, the Central Bank put notes or bonds on the market so as to withdraw the excess money creat by abundant exports and at the same time accumulated reserves. Thus the anti-cyclica policy was combined with an anti-inflationary policy, by withdrawing excess purchasing power from the market.

A policy of that type was quite understandable at the time, for two main reasons. First, because we were then living under the tremendous impression created by the world depression, and considerations of stability prevailed over considerations of development in the central banks of the developing countries, the aim being to avert any further serious contraction of the economy. Another basic consideration was that the world then had no international credit machinery to cover a deficit in the balance of payments, whether it was cyclical or not. Today, Mr. Chairman, I would not advocate a policy of that nature. I believe that now, when considerations of economic development prevail, reserves in excess of what prudence requires a central bank to maintain should be used to acquire capital goods. We should consider this point and explore the possibility that, in the event of a cyclical recession, the external resources thus used in boom periods can be recovered through the agency of international credit organizations. I would like to submit this idea for the consideration of Mr. Friedman and, of course, of the group of experts which will be set up to consider this problem if the suggestion made a moment ago by the Chairman is adopted by this Committee and by the Trade and Development Board.

A point of considerable interest with regard to supplementary financing is that it would be granted on terms similar to those of basic financing. On this point I should like to ask the distinguished representative of the Bank a few questions. If the basic financing of a plan has been granted on certain specific terms as to interest rates and duration, and a contraction of external origin then occurs which reduces a country's capacity for saving, will supplementary financing be granted on the same terms as the basic financing although the country's capacity for saving has altered? Or, will supplementary financing be adjusted to take account of the worsened conditions which have arisen for reasons beyond the country's control? Will it not be necessary in some cases to consider loans for longer periods or at lower rates of interest, so as not to place the country in difficulties with regard to the fulfilment of its obligations?

This whole concept is based on the need to face the consequences of an unexpected fall in exports. Projections are made on the basis of certain conditions, and when these conditions change supplementary financing comes into play. It is conceivable that, in certain specific cases, projections should be made bearing in mind a tendency for the terms of trade to deteriorate. It is not my intention to give, at this stage, any interpretation of the Bank's report or of the interesting paper recently read at Chatham House by Mr. Friedman; but I would like to ask this question: what would happen if a tendency for the terms of trade to deteriorate, which had not been observed at the time when a development plan was formulated, were to appear during its implementation? The Bank's study only mentions the case of a fall in exports, which may be due to a decrease in their physical volume or to a fall in prices and rightly offers supplementary financing as a means of dealing with the consequences. But I wonder what would happen if the fall in export prices were to coincide with a substantial increase in the price of imports, resulting in a decrease in the external purchasing power of a country. Could a country obtain supplementary financing in those circumstances? I take the liberty of putting these questions to Mr. Friedman, because I believe they will make it easier to understand the problem.

Lastly, without making an exhaustive analysis of the modalities of the scheme, I think it is important to examine the magnitude of the resources which the Bank recommends should be mobilized for supplementary financing. The study mentions an amount of $300 to $400 million a year, on the basis of previous experience and of a detailed analysis of export trends for a large group of countries. It also arrives at the conclusion that the average size of past fluctuations is about $1,000 million, and rightly maintains that part of this amount could be provided from monetary reserves, IMF drawings, other types of credit and, lastly, by restricting some imports. It is no doubt of the greatest importance to study this aspect of the question, but I believe that only when the scheme is put into operation will it be possible accurately to define the nature and magnitude of the resources that will have to be brought into play. I have the fullest confidence that the scheme is feasible and, what is more, that it can be effectively implemented. In this connexion, I should like merely to refer to import restrictions. In his recent work, Mr. Friedman speaks of the possibility of placing restrictions on certain superfluous or luxury imports. This is a point of great interest. Supplementary financing should be accompanied by a rational anti-cyclical policy to be pursued by the developing countries, which would use every means in their power to mitigate the consequences of external fluctuations and to avoid excessive indebtedness.

Everything possible must be done to ensure that international financial resources are used to cover the savings deficit or the difference between the investments a country wishes to make under its plan and the amount of internal resources it mobilizes. In any case, except in exceptional circumstances, these external resources must not be used to meet consumer needs, for sooner or later they will have to be repaid to the lending agencies; it is of the greatest importance that they should be used for investment, not for financing external payments deficits, although certain circumstances may make this inevitable. It is true that some countries have carried the policy of import substitutes to a point where no margin is left for restricting imports when an adverse movement of the cycle occurs. Other countries, however, still have a margin of imports which, although not necessarily luxury goods, could be reduced or deferred, because they are not indispensable for economic development. On the other hand, it would be difficult to curtail, for example, imports of semi-finished articles, essential consumer goods, or certain capital goods. Consideration should be given to this aspect, with a view to reducing the need for supplementary financing as much as possible. The criterion I am putting forward is not that of financial institutions, but the one which should guide the developing countries, because their investment needs are so great that it would be truly deplorable if resources of this kind were not used for investment.

The third aspect of the study to which I wish to refer is the connexion between supplementary financing and the basic or regular financing of a development plan. As I have said before, one of the main features of the Bank's proposals is the fact that the whole system is based on the idea of planning. We are well aware that the technique of good planning includes the projection not only of exports, but also of the internal savings which a country must mobilize to demonstrate its own effort under the development policy and also a projection of the external resources available for executing the plan. All these projections will, of course, be carefully scrutinized by the agencies concerned with the financing of a programme.

In addition to its technical character, this analysis has a very important implication. So far, save in a few exceptional cases, the policy has been to finance isolated projects without having any overall idea of the external contributions a country requires to carry out its plan. The fact that the projection of the external resources required for financing an economic development plan is accepted, means, if I am not mistaken, acceptance in principle of the idea that international lending agencies, when studying a plan as a whole, recognize the need to settle on a certain volume of external resources beforehand; in other words, while the essential idea of financing specific projects has not been abandoned, the need to decide beforehand the total amount of external aid which a programme or plan of five, six or seven years may require, now appears to be recognized. This seems to me to be of the greatest importance from the point of view not only of basic, but also of supplementary financing.

What does "supplementary" mean? It means that outside financial resources are added to those previously provided for under a plan. The determination of these basic resources is of special importance, since, if this fundamental principle is not accepted, supplementary financing may well be provided at the expense of the basic financing when, on the contrary, what is desired is the addition of supplementary to basic financing, in order to enable a country to carry on its development plan without any serious disruption. It is an accepted principle, which seems to me to be self-evident, that if a group of international institutions recognizes, in some form, the need to provide resources during the lifetime of a plan, it should make a thorough study of that plan, of its soundness as regards the objectives in view, of the resources required to carry it out and of its other characteristics.

I have previously referred to the need for a projection of the internal savings required for a plan. How far can the international lending agencies go in analysing purely domestic measures taken by a country? To what extent will countries submitting a plan be required to adopt a certain type of measure? These are matters which have long been under discussion.

Let us take the case of the mobilization of savings. It is obvious that in order to determine the amount of external resources, lending agencies must know the amount of internal resources, and the country in question must undertake to make its own efforts to obtain these resources. This is a matter entirely distinct from consideration of the domestic policy measures which a country will apply in order to fulfil its undertaking to mobilize its own savings.

Is a specific financial, credit, monetary or fiscal policy going to be demanded? Is it going to be decided how a country should manipulate its fiscal and monetary machinery in order to meet the savings projection, or is the country's undertaking to raise this predetermined amount sufficient? This is a matter of such importance that a dividing line must be drawn between the technical requirements of a plan and what may be called its political requirements. Since this is a point of the greatest importance and is essential in any development plan, I think that it will be discussed by this Committee not only from the point of view of supplementary financing proper, but also in a general context, since it relates to the whole concept of the financing of development plans.

I can give another example. A country may have special views on combining economic and social investments. There are countries which prefer to settle a pressing problem of low-cost housing before investing in directly productive projects. When considering a plan, should international credit institutions pass judgment on these aspects of it which concern a country's domestic policy? On the other hand, the difficulties encountered by a country in applying a particular policy within the framework of its conception of economic development can be assessed only in the light of the experience acquired by people of that country. All this suggests that a clear dividing line should be drawn between what should really be recognized as a fundamental requirement for the soundness of a plan and for its application - and no one could deny that the international credit institutions, must satisfy themselves that the plan is rational and feasible - and those other aspects which fall within a country's exclusive sovereign right of determination.

As I have said before, these matters have been widely discussed, and I might mention an experiment in that part of the world which I have so far known best, namely Latin America. When a few years ago, the Charter of Punta del Este was considered, from which the Alliance for Progress originated, a group of economists which had been consulted proposed that, without prejudice to the evaluation of economic development plans and their implementation by international credit institutions - which could not be deprived of the powers essential to them - plans should first be evaluated by a small group of impartial experts. The purpose was to ensure the greatest measure of objectivity in the analysis and at the same time to obtain impartial advice on certain fundamental aspects of economic development policy.

The idea was approved by the governments represented at Punta del Este, but not in the form in which it had been submitted: on the one hand, the number of experts was increased, but, on the other hand, the group was decapitated, in that it was deprived of a chairman. All this contributed to the failure to carry out this excellent project in the form in which it had originally been proposed by those who had conceived it.

A few days ago, at another inter-American meeting held at Buenos Aires, the idea was modified. The experts were reduced in number, and instead of acting as an independent group, they are to advise the Chairman of the inter-American Committee of the Alliance for Progress, an officer whose important duties include making recommendations on the allocation of the financial resources which the United States Government places at the disposal of Latin American countries. It is to be hoped that after this change the experts will continue to have a large measure of independence in evaluating plans and advising governments and credit agencies; this will make it possible for the experiment, which was begun a few years ago, to be refined, and for the group of experts to be very useful.

The initial proposal not only laid it down as an essential condition of external financing that a plan should exist, but also required that the plan should be submitted to the experts. These two conditions were abandoned at the time, possibly because the idea was very new, but perhaps experience shows that it would be advisable to reconsider them. I have ventured to recall this matter, because certain apprehensions I have noticed among some delegations of developing countries in this matter might perhaps be dispelled if it were considered desirable to set up machinery of that kind.

At any rate, the fact that a country reserves to itself certain domestic policy decisions which are its own inherent and inalienable prerogative, does not mean that it is not to that country's advantage, as experience shows, to receive technical assistance - which may be multilateral or bilateral according to choice - for the purpose of determining what kind of measures should be applied.

It will also be remembered that the regional economic commissions of the United Nations in the developing areas have established planning agencies capable of training staff and providing technical assistance to countries applying for it, with a view to advising them on programming. The International Bank, too, has an institute qualified to deal with these matters. But let me stress that this is technical, and in no case political assistance. The former is what the developing countries need; the latter is something that concerns them alone.

This Committee is meeting for only a very few days, and it cannot possibly consider all the important aspects of the Bank's report. You yourself, Mr. Chairman, in suggesting that an inter-governmental committee should be set up, have recognized the importance of the idea. I hope that the Committee on Financing and, thereafter, the Board, will approve the suggestion. However, it would also be valuable for this Committee to support, in a positive manner, the idea of supplementary financing as such, because the task of the experts would be considerably facilitated if the acceptance of the idea itself were to be taken as a starting point, which would not mean accepting all the details of the proposal. The experts would then not need to spend any time discussing whether supplementary financing is desirable or not. We all know that discussions involving decisions of that kind are always difficult. I think that this task would be made much easier if it were recognized that the Bank's report solves, in principle, the serious problem which the 1964 Conference laid before governments and which the delegations of the United Kingdom and Sweden took up. I believe, Mr. Chairman, that this would be one of the most important contributions the Committee could make, and it would define the scope of the study to be undertaken by the group of government experts, if the idea of setting up such a group is accepted.

FORM No. 75 (2-60)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

INTERNATIONAL DEVELOPMENT ASSOCIATION

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REMARKS

UNCTAD Secretariat paper on 'Growth Rates - Progress Report', for the Trade and Development Board meeting.

(Mr. Consolo mentioned that the resumed session of the Financing Committee to take up the Experts' Report on Monetary Issues will be in New York for 3 or 4 days from January 27.) Messrs. Pereira Lira and de Fontenay to represent Bank.
I. Kalmanoff

From N. A. Sarma

Sarma

FORM No. 75
(2-60)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE
CORPORATION

INTERNATIONAL DEVELOPMENT
ASSOCIATION

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REMARKS

Please see pg 3.

+ 14-17

Supplementary Finance

From A.M. Kamarck

Mr. Knapp
from Counts

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Third session
New York, 25 January-16 February 1966

STATEMENT BY MR. RAUL PREBISCH, SECRETARY-GENERAL OF THE UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT, AT THE 60TH PLENARY MEETING OF THE TRADE AND DEVELOPMENT BOARD, ON 26 JANUARY 1966

Mr. President, allow me to begin by thanking you for the kind words you addressed to me yesterday; your words are very encouraging to me. I also wish to thank your distinguished predecessor, Ambassador Amjad Ali, for the equally flattering remarks he made.

I consider that UNCTAD has now completed the first stage of organization and establishing procedure and that the time has come to delve into its basic problems. I am not saying that the operational machinery of the Board is now perfect. Proof of that is to be found in the note containing suggestions on the organization of the Board's work which I have taken the liberty of placing before its members. These are not dogmatic ideas; they are simply intended to serve as a basis for facilitating discussion.

I cannot conceal my growing concern at what I termed, at the Board's second session, the proliferation of the Board's meetings. Since then ten more meetings have been scheduled. I must state most emphatically that we are reaching the point where it will be physically impossible to service so many meetings, apart from other considerations which I already outlined at the second session of the Board.

I hope you will pardon my speaking so frankly, but I consider it my elementary duty to emphasize this point once again.

Since I have been given this opportunity of addressing the Board, I should like to speak of some of the fundamental problems that were dealt with at length at previous meetings and which will certainly be priority topics in this year's deliberations, especially in the discussions leading to the formulation of the programme for the second Conference on Trade and Development.

The more I reflect on those problems, the more I am convinced that we must face up to the increasingly serious implications of the technological revolution that is taking place in the world, and the implications of its spreading into the developing regions.

These are all well-known facts, but perhaps we have not yet attached sufficient importance to the need to approach them with what may well be radical changes in current international economic policy - if we can apply the term "policy" to a series of scattered and fragmentary measures that are sometimes aimed at contradictory objectives. We could scarcely call them a "policy" if by "policy" we mean a coherent system of ideas designed to achieve specific ends.

At the international level we are being overtaken by events, as can be seen from a comparison with what has been happening at the national level in those countries of the world which are most important by reason of their economic capacity.

Looking back over the years, if those of us who lived through the great world depression reflect on all that has happened since then, we will come to the conclusion that, in the major countries, noteworthy and impressive headway has been made in the ability to act upon economic and social forces perceptively and deliberately.

Nowadays the economic picture in those countries is very different from what it was then. A real revolution has taken place in the way in which the economy operates and in the great social objectives of the national policy pursued by each country. But this is not so at the international level. We have not learnt to act, with similar perception and deliberateness, upon the economic forces and social process in the developing world, and we must hasten to use this new body, in close co-operation with existing organs inside and outside the United Nations, especially the Economic and Social Council, in order to help formulate a new policy, in a systematic attempt to work perceptively and deliberately, at the international level also, towards the achievement of the great objectives that must be formulated so that the serious problems of the developing world may be overcome.

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How does this technological revolution look? Here we find a notorious paradox: this technological revolution, which has led to the stupendous growth of the industrially advanced countries, produces increasingly marked effects which are beginning to work against the interests of the developing countries.

It is a paradox which we must face. But how? Are we to apply the brake on technological progress? Are we to cut off this immense source of human well-being which is limited today to a small number of countries? This cannot be done, and we must strive to introduce the technological revolution into the developing world on an ever-growing scale. And here we are confronted with another paradox: the greater the effort to modernize a country, the more sincere the desire to apply up-to-date techniques to its agriculture and the stronger the impetus we want to give to the industrialization process, the more we find that the result is a mounting demand for imports, and for imports not only of capital goods but also of the wide range of consumer goods which modern technology is making available, on a steadily increasing scale, to consumers who, in their turn, are influenced by all the modern media that technology has produced to advertise and create new needs.

This is the phenomenon of persistent external disequilibrium on which the Geneva Conference focused its attention.

The fact is fully recognized. The report which the International Bank for Reconstruction and Development recently submitted to our Board, and on which I will comment later, fully acknowledges that one of the most formidable obstacles impeding the economic development of the developing countries is to be found precisely in this paradox which technology has created in the world and which results in a slow growth of exports and a steadily accelerating demand for imports in the peripheral regions as the modern technology of production permeates their economy.

This is a fundamental fact and it must be faced, but it is not the only one. There is another of equal gravity which has not been considered with all the attention and urgency that it deserves.

It is common knowledge that the developing countries with relatively low <u>per capita</u> incomes have to absorb an increasingly more complicated technology that requires rising <u>per capita</u> inputs of capital in volumes generally beyond the means of the developing countries. We are all aware of this, but perhaps we have not attached to this phenomenon all the political and social importance that it deserves.

Throughout the developing world, and especially in the countries which have made most headway in industrialization, we are witnessing a phenomenon fraught with tremendous consequences. The paradox of modern technology and low income does not allow those countries to absorb even the manpower employed in extremely low-productive agriculture or in other backward sectors of the economy, far less the steady increment in the labour force resulting from population growth in all the developing countries. The economy clearly does not have sufficient dynamism to absorb the human potential and this has very serious implications in all fields of human activity.

It is my firm belief that this phenomenon is only in its initial stages and that we are witnessing its first manifestations. It is not a passing phenomenon; in my opinion, it will grow steadily in magnitude, and it is now apparent not so much in conspicuous unemployment as in employment of low-productivity, small incomes, unskilled personal services, small businesses, in the constant pressure to absorb people in public administration and public services, in a thousand subsidiary activities and, to put it briefly, in a multitude of misemployed people whom the economy cannot absorb at the level of high productivity that modern technology makes possible.

A growth rate much higher than that established for the United Nations Development Decade would be necessary to absorb this redundant manpower. If we fail in this, the Development Decade will go down in history as one in which there was an impressive development of inflammable material in the developing countries.

But this is not the whole story; there is another equally important factor which may not be receiving the attention it deserves. Each generation has dynamic elements at all social levels - men with great initiative, determination and skill

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at combining the resources available. This is the potential source of people who could direct enterprises, who could co-ordinate factors of production in factories - the trade union and political leaders of the future. These people who will, or could, influence economic, political, cultural and scientific life have been referred to in the Economic Commission for Latin America as the "dynamic elements of society". These elements must be absorbed by the economic process and by all human activities. Therein lies the importance of a growth rate which will enable these elements to be absorbed on an adequate scale. A rate of 1, 1 1/2 or even 2 per cent will not absorb them.

There is also the other paradox: with the modern media for disseminating political ideas and social and economic aspirations, these people are becoming clearly aware of their potentialities, but at the same time they are becoming aware of the fact that their dynamism is frustrated and this is changing them into elements that could set off a conflagration.

Thus, on the one hand, we have the accumulation of inflammable material and, on the other, the elements that could set it on fire and which are prevented by the lack of dynamism in the economy from ascending the social scale and playing in society the part which social mobility should allow them. Hence - and I do not think I am exaggerating - we are nearing the time when in the developing countries an external accident or an internal incident may bring the inflammable material to which I have referred into contact with these fire-setting elements. I do not need to stir up your imagination to bring home to you the unforeseeable repercussions which such a phenonemon may entail for the world - the whole world - because even the most prosperous countries have not reached the stage where they are immune from the upheavals of the periphery.

However, it is said: "The remedy lies in birth control. Why do the countries of the periphery complain that they cannot absorb this human potential? Why do they not reduce their birth rates?"

Out of curiosity I have again read what was said at the time of Malthus. The ruling classes of Europe found comfort in that worried clergyman because during the social ferment of those early days of industrialization there were many people whose consciences were troubled by the all too obvious poverty of the masses.

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Malthus arrived on the scene and said: "It is not the fault of the ruling circles; it is the unrestrained procreation of the masses which causes their poverty." Nowadays Malthusianism is presented in more scientific terms. The developing countries are told to choose between two alternatives: either they can invest in techniques for reducing excessive procreation, which causes the poverty of the periphery, or they can invest in capital goods.

This is not just an economic problem; it is an eminently moral and social problem which cannot be considered as an alternative to investment in capital goods. On the other hand, we must remember how much time will have to elapse before the practical results of a birth control policy are felt. For various reasons that it is unnecessary to go into, such a policy is in itself difficult to implement. What we need is to take action that will lower birth rates at the same time. This is essential - not as an alternative to a broad policy of economic development but as a complementary method of attaining the lofty objectives of economic development.

I do not wish to digress from the problems of UNCTAD but I had to make these introductory remarks in order to lead up to the problem of world trade policy, because this is one of the basic elements of world economic policy. I believe, and this was heavily stressed at the Geneva Conference, that foreign trade - the rapid expansion of foreign trade - is an essential factor not only for the growth of the major countries but also and especially, together with other factors, for the attainment of a high rate of economic growth in the periphery. There is no other formula but the gradual reduction and ultimate elimination of the obstacles and restrictions that are impeding world trade.

There was a time - during the long decades that preceded the First World War - when there was active international trade and when multilateralism and non-discrimination prevailed throughout the world. But do not let us make the mistake of believing that we are going to find an answer to our problems by returning to the formulas of the nineteenth century in order to exorcize the evils that now afflict the world. We have to seek new formulas which take into account the consequences of the technological revolution that is taking place in the world and which has to penetrate into the developing countries. We must increase international trade but we must do so by new methods.

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In my report to the Geneva Conference I stated that the Kennedy Round was an act of great intelligence and potentially very constructive, but that its effects would necessarily be limited and would not of themselves solve the problems the world is facing as a result of the need to accelerate the rate of growth of the periphery. I take the liberty of reading out the following paragraphs:

> "Material aid to the developing countries will be of no avail unless the principles now governing international trade are radically altered...
>
> "We are confronted with different economic and social systems. It is desirable that competent men should find in these systems the bases for sound world trade; this will be made easier if each one forgoes his prejudices and is prepared to engage in an honest dialogue."

These are not excerpts from my report of two years ago; they come from a document of enormous historical importance, a revolutionary document published by the Vatican Council.

The facts are clear. Since the war the developed countries have pursued the wise policy of reducing their customs duties. They have eliminated restrictions and at Geneva are discussing ways and means of securing new tariff reductions. We hope that they will achieve their objective of cutting them by 50 per cent. Yet what have been the results so far? Despite this wise and liberal policy, the share of the developing countries in world trade, as is well known, has continued to decline, while trade among the developed countries has been growing at a very satisfactory rate. This rate may increase still further if the Kennedy Round is successful, as I most sincerely hope it will be.

However, on the basis of this experience and of very elementary logic, I do not believe that the success of the Kennedy Round will enable the developing countries to expand their trade to the point where it will help them to solve the problem of external bottle-necks. We must therefore apply, in conjunction with the formula for reducing duties between the major countries, the formula for reducing duties which will enable the countries of the periphery to increase their trade and will also solve the problem with which the Oecumenical Council dealt very frankly, namely, that of the integration of trade between countries with different social systems and different economies. It is encouraging to see increasingly clear and conspicuous signs of the recognition of this problem. Will the adoption of special measures for the benefit of the developing countries jeopardize the clear and constructive objectives of the Kennedy Round? I do not think so.

A few months ago I had the opportunity of speaking in Canada and later at an important meeting in London. I said "The Kennedy Round is not going to go beyond 50 per cent in tariff reductions and is encountering serious obstacles that I hope can be overcome. But why not proceed more rapidly in the matter of exports of manufactures from the developing countries if the developed countries are really aiming at a gradual liberalization of world trade? Why not proceed more rapidly with respect to the developing countries?"

I have continued to ponder this idea and it was with great satisfaction that I noted the very wise remarks made by Professor Kristensen, Secretary-General of the Organization for Economic Co-operation and Development, on 25 November 1965, at a meeting of the Ministerial Council of OECD. He said that when trade preferences - and I am not using the exact expression which Mr. Kristensen used - are granted to less developed countries they can to some extent be considered as giving these countries the benefit of general tariff reductions some years before these become effective in the other countries, namely, the developed ones.

Here we have the opinion of an economist from a developing country confirmed by a similar and constructive opinion of one of the soundest economists of the developed world, to the effect that we should anticipate these reductions for the benefit of the developing countries and that the aim of liberalizing world trade should be attained earlier and where it is easiest, because there is no threat of high productivity from the developing countries. There are certain categories of goods no doubt which are causing some concern but cannot we single out such categories and give them special consideration while pursuing a liberal policy with the others?

The reference which I made to my statements in Canada and London expresses my eagerness to explain these ideas every time I am invited to meetings in the developed countries. Usually I am asked: "Well, and what are the developing countries going to do? Why is the whole burden of this new trade policy to be laid upon the developed countries? Are not the tariffs and restrictions in force in the developing countries also a major obstacle to the expansion of world trade?"

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My reply is emphatically in the affirmative. Looking at this policy for liberalizing trade from the world-wide point of view, the developing countries have to assume a very serious responsibility. This is not a new idea for me; it goes back many years. The developing countries must participate in an active policy for the promotion of world trade, but first they must do so among themselves. So long as they fail to increase their productivity, so long as they fail to expand their industries to an adequate extent through larger regional markets, so long as they fail to introduce a progressively higher degree of competition among themselves to modernize their industries, they will be unable to participate fully in a policy for the reduction of their customs tariffs vis-à-vis the developed world.

I speak of competition because one of the most interesting phenomena of these times is that competition has come to be recognized - and not only in the developing countries. We also see that in the socialist countries, without prejudice to their basic tenet, namely, collective ownership of the means of production, this idea of competition is also gaining ground as an essential element for promoting the efficiency of the system, at both the domestic and international levels. This is also of fundamental importance for the developing countries. I refer very particularly to the developing countries of Latin America, which I know best, where there is not sufficient industrial competition, to the detriment of industrialization and the economic growth process.

In this connexion, and following a recommendation of the Geneva Conference, the Secretariat has been working actively on a report on the various methods of forging closer trade links between developing countries, both between the countries of a given region and in the region as a whole, or in sub-regions, in groups of countries, and also between countries of different regions. How can we promote this trade? How can we accelerate its flow? We can do so not only by trade policy measures but also by measures connected with the system of payments. This report will be considered by a group of experts which will meet after this session of the Board. After heaving their comments, we shall make the necessary adjustments to the report so that it can be submitted to the Governments of States members of UNCTAD. I attach great importance to this meeting of experts.

During an initial stage the developing countries could contribute to a world policy for the liberalization of trade by gradually reducing their duties and eliminating restrictions among themselves. In other words, while I advocate that the industrial countries should speed up their tariff reductions vis-à-vis the developing countries, in return the developing countries should proceed much more rapidly with reducing duties and eliminating restrictions among themselves. During a second stage we could consider how they can adjust their relations with the world's great industrial centres. In all frankness, I believe that much hard work will have to be done during the first stage. The position of the developing countries will have to be strengthened before they can enter into healthy competition on an equal footing with the developed countries. This process will probably take years but it must form an integral part of a world policy of trade liberalization.

It is essential to tackle this problem and we should not speak of the Kennedy Round or of preferences or of a policy of closer trade relations between developing countries in isolation, but of a harmonious and integrated complex of trade measures based on positive action. The objective will not be attained, especially with regard to the needs of the developing countries, by the mere reduction and elimination of tariffs. For this an active policy must be pursued both by the developing and by the developed countries.

And here is another question which we put to the experts in the report which I have mentioned: how can the great industrial countries contribute effectively to this policy of gradually integrating the economies of the developing countries at the regional, sub-regional or inter-regional level? On this point we have a series of suggestions on which we need the opinion of the experts.

Speaking frankly and perhaps somewhat boldly, we ask another question: should the policy of reducing customs tariffs more rapidly and intensively in the industrial countries for the benefit of the exports of manufactures from the countries of the periphery be linked in any way to commitments assumed by the developing countries among themselves to reduce their own tariffs? Theoretically, this question could be answered in the affirmative, but, of course, in practice possibly insurmountable obstacles might arise. I say theoretically because the problem is simple. The big countries are being asked to apply a preferential policy for a limited time, according to industries, in order to give the industries of the peripheral countries - through this new type of protection - the opportunity to consolidate, to increase their productivity and to become competitive in the world at large.

If this is so, and if there are industries which, with the help of these concessions, can achieve this competitiveness within ten, twelve or fifteen years, why should these industries continue to be protected among the peripheral countries by high customs tariffs or by insurmountable barriers? It would be quite illogical to create competition on the one hand and to continue blocking it on the other.

I do not say that this question is easy to answer but I believe it must be faced frankly. The developing countries could greatly strengthen their hand in their campaign to obtain trade concessions from the industrial countries if they were also ready to act with the same vigour in their relations between themselves. This problem is far from easy but it must be tackled.

It is thus that we must act upon the forces of the international economy - perceptively and deliberately in the same way as at the national level. A policy is necessary. I do not believe that the mere presentation of a formula is going to solve the problem. Henceforth we must define what kind of economic world we wish to build. Is it going to be an economic world in which a gradual relative reduction of trade between the developed and developing countries will continue to create a gulf between them even in the fortunate instances where the developing countries succeed in forming solid regional or sub-regional groupings or in increasing their inter-regional trade? If so, shall we have provided the international economy with an effective modus operandi? And even in the happy eventuality of regional or sub-regional groupings, if trade between north and south continues to decline, what will the future hold in store? Will it be a world in which economic relations continue to deteriorate? It will not be a multilateral world or a most-favoured-nation world but a world with a widening gap between developed and developing countries except in those cases where vertical relations are successfully established between north and south, in which some developing countries participate but not others. In other words, not only shall we not have a multilateral world but we shall have an economic world of increasing discrimination and fraught with disastrous economic and political consequences - a world with vertical zones of influence which will not solve the great problems that we must overcome.

In our efforts to act realistically and deliberately on the economic forces, we are also entering a field that was formerly taboo, that of monetary policy. Until recently we continued to believe that automatic forces would solve the problems of international liquidity, that certain mechanisms and the invisible hand of Adam Smith were at work in the international field also to give world trade all the necessary liquidity because gold production would always be sufficient for the requirements of liquidity.

It is nowadays recognized in one form or another that, in the monetary field too, we must act on the so-called "spontaneous" economic forces. This is the only meaning that we can attach to what is now under discussion.

The developing countries, which are certainly not represented in the Group of Ten in spite of the fact that their foreign exchange reserves amount approximately to $7,700 million, as compared with $11,400 million held by the industrial countries, pointed out at Geneva that they too have an interest in the problem of international liquidity. As a result, the Conference adopted the resolution which led to the meeting of monetary experts to their highly important report which does not only reflect the views of the economists of the periphery.

Highly competent experts from the major centres took part in that meeting and in the preparation of that report and I hope that one of them, Lord Kahn, an eminent disciple of Lord Keynes and a worthy occupant of his Chair at the University, will be able to attend these meetings of the Board and, since the Chairman is unable to come, will present the report of the experts in his capacity as Vice-Chairman of the group.

This report seems to me to be of the greatest importance, because it will make it easier for the developing countries to put forward their position and take an active part in the discussions of international liquidity which are of interest to all countries.

Of course, this is not the time to go into technical details, but I would like to take up at least two of the basic suggestions contained in the report of the expert group. The first concerns the participation of the developing countries together with the developed countries in the creation of additional reserves. Many formulas are conceivable, but at this stage we must recognize the need, as the report makes clear, for the developing countries to share both the advantages and the responsibilities which any new international system would create. However, the following objection is often raised: why should additional reserves be created for the developing countries if they are going to use them immediately? In that case, they will not be reserves; they will be additional resources for purchasing additional imports.

This concern is repeatedly expressed and I share it - although this may cause some surprise - but I do not reach the same conclusion. I share it because it is one more proof of the fact that there is a persistent disequilibrium in the trade of the developing countries and that monetary reform is not enough from this point of view. Trade reform, which will gradually remedy this trend towards external imbalance, is also essential. Let us not hope that, at either the international or the national level, mere monetary reforms will solve deep-rooted structural problems. What is needed, so far as the developing countries are concerned, is that at the same time as their reserves increase, trade measures should also be adopted as part of a new international economic policy so that the structural imbalance can thus be corrected. The fact that I share the concern I have mentioned does not mean that I believe that these additional resources will be wasted. The fact that, despite the chronic disequilibrium in their balance of payments, the developing countries have foreign exchange reserves amounting to $7,700 million, is proof of their ability to retain international reserves.

Another suggestion made by the Group of Experts, which is also of immense importance to the developing countries, is the link which the experts have established between the additional liquid resources which the industrial countries will obtain, if this monetary reform is carried out as hoped, and the additional financial resources that could be made available to the peripheral countries, thus increasing the international financial assistance they receive, which is at present inadequate and far from the 1 per cent of the income of the industrial countries fixed as a target for the United Nations Development Decade.

The Group of Experts also suggests that it would be advisable to improve the compensatory financing system of the International Monetary Fund. Some progress has already been made with regard to this problem, which should not be considered in isolation but in the light of the initiative taken by the United Kingdom and Sweden in connexion with supplementary financing.

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The members of the Board have already received the relevant study by the World Bank, which very understandably makes it clear that the study was prepared by the staff of the Bank and does not purport to represent the views of the Executive Directors of the Bank, or of their Governments which appointed or elected them. I have no hesitation in stating, however, that this study is highly constructive and is already of definite historical value. This should not be interpreted as meaning that I agree with every word of the study or with all the proposals, but, as a person who for many years has advocated the necessity of a scheme such as that proposed in the study, I feel it would be a sign of intellectual pettiness on my part if I did not pay a tribute, as an economist from a peripheral country, to the efforts which the Bank technicians have made in preparing the study, and I shall explain why.

Firstly, because the scheme proposed in the study recognizes the need for planning, for economic development plans with a clearly defined underlying policy.

Secondly, because the study recognizes the need for export projections. "Planning and projections," two words which a few years ago were considered heretical and abhorrent, now appear respectably in an international study, which this time is not prepared by the Economic Commission for Latin America or by other United Nations regional economic commissions, but by the International Bank. And, lastly, because the ideas of planning and projection are not presented in the study as an ideological innovation but as a pragmatic method of attacking a problem which has been of great concern to us all.

Those of us who have been involved with planning in developing countries have discovered more than once how difficult it is to plan properly, when, after making a reasonable calculation of export trends, those exports suddenly plunge for external reasons beyond the ken of those responsible for economic policy.

It is absolutely impossible to implement a development plan in an orderly manner if there is no rapid and effective means of obtaining additional investment resources in order to counteract the effects of an unforeseen drop in exports. Recognition of this fact is the key-stone of the Bank's study. The study does not seek to ignore the fact and points out the impossibility of pursuing a sound economic policy if this problem and its causes are not promptly attacked. Actually, a country affected by an unforeseen contraction of external origin cannot wait very long while lengthy studies are made of the external factors and responsibilities

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that may have contributed to the contraction before taking action to counteract it. The study also defines various factors that should be taken into account in the proposed scheme in order to facilitate and accelerate the supplementary financial assistance needed by the country affected.

I shall not attempt at this juncture to analyse these and other aspects of the Bank's study, such as the question whether the financial resources that have been calculated are adequate or not, or whether the Bank itself could provide resources or at least part of them, but I do have the following remarks to make.

It is a recognized and indisputable fact that, if an international credit institution agrees to provide resources for a general development plan or for an emergency such as that referred to in the study, it is logical that the institution should examine not only the external requirements of the plan but also the plan as a whole and its underlying policy, since, in the last analysis, the plan is the quatitative and numerical expression of an economic development policy in all its aspects - fiscal, monetary, trade, etc.

This is not a simple problem, because - and here again what I say is historical fact - the kind of policy followed by a developing country in its plan has not always been acceptable to the credit institutions, either over the long or the short term, as we have often seen. In former years, which are now fortunately behind me, I have seen the policy of industrialization roundly condemned. I have seen the policy of import substitution rejected on more than one occasion. But today, many of those who rejected it believe that it is "the" solution to avoid a policy of exporting manufactures from the peripheral countries. I have seen serious misunderstandings of certain structural factors of inflation, which is also due to unsound economic and financial policy, begin to disappear. I have also witnessed, in bygone days, systematic opposition to planning. One need not delve far into the past to verify this, for this opposition persisted until only a few years ago and has still not been completely eradicated.

We therefore have a very serious problem to consider in connexion with the scheme proposed by the Bank. We must agree forthwith upon a policy and upon a plan, as the Bank's study very rightly says, but what type of policy? What type of plan? In this connexion I believe that UNCTAD, the Economic and Social Council and the regional economic commissions must continue to play a basic role by

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contributing new and bold ideas. I know that my old friend and distinguished colleague, Philippe de Seynes, is striving to introduce these new ideas, in planning and in a series of measures of fundamental importance to the developing countries which do not clash with but rather complement what we are doing or ought to be doing in UNCTAD.

You will recall, Mr. President, that in 1954, when ECLA was invited by the Organization of American States to submit a report on ways in which international economic co-operation could be reinvigorated, we set up a group of experts and the distinguished President of your country, Eduardo Frei Montalva, was one of them. An eminent professor, to whom the developing world owes a great debt because of the audacity, clarity and power of his ideas, namely Professor Rosenstein-Rodan, was also invited. He agreed with us that a plan must be evaluated on the basis of the correctness of policy; but what policy? He told us: "The policy should not simply be framed by those who are contributing resources; apart from the general formulation of a development policy by international bodies, there must be an impartial group of experts who can evaluate, independently of all functional participation in the financial field, the economic feasibility of a plan. That was how the idea arose of an independent group of experts, an idea which was subsequently taken up by the Punta del Este Conference and put into practice at the inter-American level, although in an unsatisfactory way, in my opinion - but this is not the time to comment on that. At any rate, it is an interesting experiment which should not be ignored.

Again, if a policy of supplying emergency funds to offset the consequences of a fall in external demand is to be successful, it is absolutely imperative that there should first be an undertaking, at least in principle, to supply for the entire term of the plan - if it is recognized as a good one - all the external resources which the plan requires, because, if additional emergency resources are received later at the expense of the resources for which provision was made earlier, no purpose will be served.

This idea compels us to recognize another which also dates back to 1954, the need to assume commitments of principle, conditional upon actual implementation of the basic elements of the plan: commitments of principle concerning the international resources which will have to be contributed to supplement the very strenuous efforts to mobilize domestic resources.

Another of the interesting points made in the Bank's study is the following. It is recognized that in all cases in which it is possible to conclude a commodity agreement, this will contribute to the goals of the development plan, since the more relative stability is achieved in the matter of commodities, the less will emergency resources, whether coming from the International Monetary Fund or the agency responsible for this scheme, need to be used. In the end, commodity agreements, the operations of the Fund and supplementary financial measures are complementary forms of operation, and the total volume of resources that the developing world needs to set its economy in order from the external point of view does not depend on any particular policy but on the magnitude of the fluctuation whose effects have to be corrected or countered.

This point brings me to another which I mentioned in the Committee on Commodities. Progress has been made in international financing by means of new institutions, those which emerged from Bretton Woods and the regional institutions which are making a most welcome appearance throughout the world. But there is still no machinery for financing buffer stocks such as would be needed in certain specific cases, though not in all, in order to implement an effective commodity agreement policy. This is a serious defect in the international financing system. We have found this already in specific cases, such as the tin agreement, which could have been much more effective if it had had more resources at its disposal; and we found the same thing here only a few days ago in the Working Group on Cocoa.

I had thought until then that we were close to a constructive agreement on cocoa. Some representatives of cocoa-producing countries felt that I was being optimistic, as there were great difficulties. I told them: "I am not being optimistic. I see the possibility of an agreement because the problem is now well known and we know in general terms what needs to be done. I am neither optimistic nor pessimistic, because I think that now the solution does not depend on endless discussions but on the political will to translate what was agreed upon at Geneva into action."

Moreover, the case of cocoa is simpler than that of other commodities, because so far, fortunately, the developed countries do not produce cocoa, although I am not too sure that within five years we will not have synthetic cocoa, with the result that demand for the natural product will decrease. That may work to the advantage of the great and the disadvantage of the small, and history will repeat itself. But the political will to reach an agreement has not yet found a clear and

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practical expression, and I consider that this is because we are trying to escape from the basic fact that, if action is to be taken with regard to certain primary commodities, some buffer stock machinery is required and this necessitates adequate financial resources.

We must not continue to go round in circles. How can developing producing countries, chronically afflicted by a lack of financial resources for their own economic development, be expected to contribute resources which they do not have to the building of buffer stocks? So long as this problem is disregarded, little will be achieved at meetings of this kind or in the Committee on Commodities, and there will be a tremendous wave of frustration in the developing world if we do not manage to find a genuine solution to this problem.

It is an illusion to suppose that the developing countries can solve this problem by themselves, for that would mean taking resources away from development, at the expense of the growth rate, and using them for buffer stocks.

Nevertheless, during the discussions on cocoa, the developing countries proposed to contribute in cash and in kind up to 50 per cent of the resources needed for the operation of a buffer stock. But the other half is missing. I am speaking frankly, because I think it is my elementary duty to do so.

I must also make a few remarks on the attitude of the developing countries. It must be recognized that a system of buffer stocks cannot operate properly without a flexible system of export quotas, but to imagine that quotas can be left, virtually alone, to regulate a market is merely to create another problem. If, in order to regulate the cocoa market, or any other commodity market, the producing countries have to accumulate the surplus commodity within their own frontiers, then, given their lack of financial resources, they will only add to their payments problem or to inflationary pressures. If it is thought desirable that the producing countries should be responsible for accumulating surplus stocks within their own frontiers, they must be given the necessary resources. There is no other solution. I hope that it will be possible to reach a closer understanding along those lines and, perhaps, to provide emergency resources for the operation of a buffer stock. Fortunately, such resources are not required so much at the moment because the market situation has improved, but we know from experience that situations can repeat themselves, and it would be very serious if we had to improvise solutions.

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Now that we are thinking of the next conference and its agenda, I believe that, whatever solution is found for this problem, the financing of commodity agreements - not all of them, because the situations are not identical - will have to be one of the fundamental topics.

Mr. President, since the Geneva Conference, both here and throughout the rest of the northern hemisphere I have often been asked: what must the seventy-five or seventy-seven developing countries do, since their economic structures are so different and many of them have opposing political ideas? How is it possible to talk of unity? Are we not witnessing one of the many rhetorical windstorms that occur in international assemblies and which blow down as fast as they blew up? We must all have asked ourselves such a question. And I say: are the problems that I have mentioned, and the other problems that should be mentioned and for which the world is awaiting a solution, problems that take on different forms in the different economic or social systems or according to the different positions of the developing countries? Surely, the need to export manufactures is of concern to all, although at the present time perhaps it concerns the more developed rather than the less developed countries. However, is it not true that the less developed countries will face the same problem as they increase the pace of their industrialization? Surely, all the developing countries are concerned with the need to find feasible ways of increasing trade among themselves. Surely, all of them, without exception, are interested in solving the problem of liquidity in a way that would serve their interests. Surely, they are all primary producers and all concerned at the instability of the market and at the customs duties and restrictions that affect them. Surely, all those countries are confronted or will be confronted - and there are clear signs that this will happen - with the paradox that I referred to earlier of modern technology and the lack of resources to absorb it without creating the inflammable elements to which I also referred? Are these problems found in some countries and not in others? No. They are problems that concern them all and there is nothing contrived about the fact that delegations and men who are facing all these problems should meet and study them together, and discover by working together the best ways of solving the problems and co-ordinating their activities. Is there anything unnatural about this or is it the result of long experience of disunity? I believe that in these endeavours there is a strong sense of unity, without which,

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in spite of differences of another order that may occur, the ideas, decisions, resolutions and perhaps the agreements so urgently needed by the developing world could not emerge from this body.

Mr. President, you said yesterday that time could not be given any more time. Time has already been given a great deal of time and the result has been failure. Today we are faced with a situation of extreme urgency. I should like to convince the great Powers of the inescapable need to face up to the far-reaching changes that are taking place in the countries of the periphery. I say this in all sincerity, because I am convinced of the urgent need to formulate a new international economic policy in order to contribute to the development of the peripheral countries.

I do not believe that this attitude is called for on the part of the great Powers in order to avoid structural changes. The changes in the economic and social structures of the peripheral countries are inevitable. No forces either external or internal can prevent them. That is not the problem. The problem is to bring about these changes in an orderly fashion with a minimum of human, social and political sacrifiecs, which would otherwise be extremely heavy, not only for the developing countries, but also for the great Powers; for the world is now so interdependent that no one can remain immune from the serious troubles which must otherwise occur in the years to come.

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From Conolly

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Item 11 of the provisional agenda

PROGRESS REPORT IN CONNEXION WITH THE ASSESSMENT OF THE FEASIBILITY OF ACHIEVING HIGHER RATES OF GROWTH

Progress Report on the Feasibility of Higher Rates of Growth

Submitted by the Secretary-General of UNCTAD

1. In May-June 1963 the Preparatory Committee for the United Nations Conference on Trade and Development had before it a preliminary paper by the United Nations Secretariat on trade needs of developing countries for their accelerated economic growth.1/ A revised version of the paper was presented to the Conference itself in March-June 1964.2/

2. The Secretariat study showed that the combined gross domestic product of developing countries had increased in constant prices at the average annual compound rate of 4.4 per cent during the 1950s. At the same time the trade balance of these countries had tended to worsen steadily as a result of the combined effect of (i) a sluggish growth in the demand for their exports while export prices have tended to sag, and (ii) a sharp increase in their own demand for imports, particularly of capital goods, accompanied by an upward pressure on the prices of a wide variety of these goods.

3. The Secretariat made the hypothetical assessment that if (i), certain aggregate economic relationships observed during the period 1950-1960 for developing countries as a group were to continue to hold good during the decade 1961-1970; if, in addition, (ii), the aggregate rate of growth of the gross product of the

1/ United Nations, World Economic Survey 1962, Part I, pages 5-9.
2/ United Nations, Proceedings of the United Nations Conference on Trade and Development, Volume VI pages 91-102.

developed countries were to continue at the trend rate of 3.7 per cent per annum prevailing in the nineteen-fifties; and if, (iii), developing countries, on the other hand, were to raise their rates of growth so as to average an annual compound rate of 5 per cent during the decade of the nineteen-sixties, there would be a gap on current account, at prices prevailing in 1960, of $20 billion in 1970. The flow of public and private funds into the developing countries averaged about $9 billion a year during the period 1961-1964, while the average rate of growth of these countries was about 4.0 per cent during the same period. If the flow of capital in 1970 were no higher than the current level, the residual gap would be of the order of $11 billion in that year.

4. Since the above estimates were made, other projections have been undertaken by various national and international agencies and private individuals. These projections are based on various assumptions about growth rates, export possibilities, import requirements and other factors. In some cases, even the data employed in the various estimates diverge significantly because of major revisions that have taken place in the basic statistical series from time to time.

5. The differences in the estimates of the gap are thus due partly to differences in methodology employed in assessing the historical relationships and partly to differences in the assumptions about future trends; in some cases there are differences in basic data also. Notwithstanding these differences, one fact that clearly emerges from the various studies is that a sizeable gap does exist and that it is likely to increase, if any reasonable rate of growth of developing countries is to be sustained.

6. As the Chairman of the Development Assistance Committee of OECD put the matter in his 1965 Review:-

> "... all global calculations of requirements made to date seem to indicate a need for a further increase of the volume of net capital flows to less-developed countries, even on the basis of a minimal set of development targets."1/

1/ Organization for Economic Cooperation and Development, Development Assistance Efforts and Policies, Report by Willard L. Thorp, Chairman of the Development Assistance Committee, September 1965, page 111.

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And the World Bank's Annual Report 1964-65 reported the following:

> "While the amount of external finance has grown little in recent years after a substantial rise in the 1950's, the capability of the developing countries to make a productive use of resources has increased considerably. A preliminary Bank inquiry, carried out country by country and based on the judgment and experience of the Bank's country specialists and area economists, suggests that the developing countries could effectively use, on the average over the next five years, some \$3 billion to \$4 billion more of external capital per year than has been provided in the recent past."1/

7. Since the current rate of public and private capital flow to developing countries from all sources is of the order of \$9 billion a year, the World Bank's study implies the need for an average flow of \$12 to \$13 billion a year from 1965 to 1970. This would be consistent with a gradual and progressive increase in requirements from the current rate to, say, \$14-15 billion per annum in the year 1970.

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8. While this estimate of the Bank is lower than that obtained by the UN Secretariat, it should be noted that the two sets of estimates are based on different conceptual approaches. The World Bank estimates are designed to indicate the capability of the developing countries to make productive use of additional resources and they are apparently arrived at on the basis of estimated feasible rates of growth in output over the next five years. It is also understood that the World Bank estimates were arrived at on the assumption that certain policy measures deemed desirable for sustained development were being pursued and that one effect of this would be a reduction in the ultimate gap. The United Nations estimate of a \$20 billion gap, on the other hand, as already noted, was designed to assess the hypothetical gap in external resources on the basis of a set of assumptions involving the continuation of trend rates of growth of output in the developed countries and the achievement of the General Assembly target rates of growth for the developing countries. The magnitude of the United Nations estimate of the trade gap depends, inter alia, on the assumed rates of growth of the developed as well as of the developing countries. For example, as was shown in the United Nations report submitted to the UNCTAD, the estimate of the gap amounts to \$16 billion, rather than to \$20 billion, when the projections are based

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1/ World Bank and IDA, Annual Report 1964-65, page 62.

on an alternative set of assumptions regarding rates of growth for both developed and developing countries.[1] Thus, the estimates of the World Bank and of the United Nations Secretariat, based on quite different methods of analysis, have yielded results that may be considered as not inconsistent, and which certainly point to the same policy conclusions.

9. Differences from other estimates that have been made also seem, on closer examination, to be far less significant than had appeared at first sight. A careful study of these differences is now being made.

10. At the Geneva Conference, the question was raised whether the determination of growth targets and gap estimates on a global basis was entirely suitable in view of the differing economic characteristics and stages of development of the countries concerned. The Conference therefore took the position that it would be necessary to examine the economic situations of individual developing countries, as a basis for the elaboration of measures by both developing and developed countries to promote higher rates of growth than those experienced in the 1950s.[2]

11. At the first session of the Trade and Development Board, the Secretary-General of UNCTAD explained the steps that were being taken in response to the Conference's decision. An attempt would, he said, be made to present to the Board a clear picture of the diversity of situations facing developing countries, and of the relation of these diverse situations to the trade gap and trade needs of these countries.[3]

12. In the process of evolving a programme of work in this field, the Secretary-General of UNCTAD has initiated consultations with other agencies regarding the work they are doing, with a view to ensuring close working relations and the

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1/ This $4 billion difference in the estimated gap is arrived at as follows: (a) $2 billion if the developing countries are assumed to grow so as to reach a terminal rate of 5 per cent in 1970 instead of at an annual average compound rate of growth of 5 per cent; (b) $2 billion if the OECD target rate of growth of 4.2 per cent is substituted for the trend rate of 3.7 per cent in the developed countries (see United Nations Proceedings of the UNCTAD, Volume VI, Chapter 3 (reproduced in the World Economic Survey, 1963, chapter 3) table 3-2 and paragraphs 102 and 108)).
Since these calculations were first prepared, the observed rate of growth for the first four years of the decade in the developed countries have in fact averaged about 5 per cent as against the 4.2 per cent target rate. If this observed rate were to prevail throughout the remainder of the decade, the United Nations estimate of the trade gap would be reduced by an additional $3 billion, to a level of $13 billion.

2/ Final Act, Annex A.IV.2.

3/ Annual Report of the Trade and Development Board to the General Assembly, document A/6023, Annex B, page 12.

avoidance of duplication. It was emphasized in these discussions that the Secretariat of UNCTAD is anxious to cooperate with both national and international agencies, and with universities and other research institutions, in the task of presenting to the Trade and Development Board and the Conference a picture of the trade needs of developing countries, individually and collectively. It is recognized that the usefulness of such studies to the Board and the Conference will depend on the extent to which they reflect the largest possible measure of professional agreement as to the basic data and methodology to be employed.

13. Close working relations and interchange of data and studies have been arranged with the Centre for Development Planning, Projections and Policies of the United Nations. A division of labour has been mutually agreed so as to avoid duplication of work, and joint meetings will take place, together with the secretariats of the regional economic commissions and of the specialized agencies concerned, to review the methodology used and the results obtained.

14. Discussions have also been held with officials of the World Bank. The World Bank's studies in this field are part of the Bank's regular work with its countries. The Secretary-General of UNCTAD would be happy to participate in a full interchange of data and studies with the World Bank. The World Bank has indicated its willingness to cooperate both to avoid duplication and improve the quality of the work of all.

15. A preliminary exchange of views has taken place with the FAO, which has responsibilities in the projection of agricultural production and trade, and arrangements have been made for the exchange of data and studies.

16. The Secretary-General of UNCTAD would also welcome the cooperation of any governmental or non-governmental agencies that are doing work bearing upon the calculation of the trade needs of developing countries. He has already received a number of studies undertaken by certain such agencies.

17. The Secretariat of UNCTAD has begun work on a small number of pilot country studies with a view to exploring questions of methodology in the calculation of the trade needs of individual countries. When these studies are completed, they will be discussed with the Centre for Development Planning, Projections and Policies, with the regional commissions and specialized agencies, and with a number of consultants with

special experience in trade projections. On the basis of comments received, the Secretariat will prepare a further work programme, using its own resources and those of the regional commissions and of any other agencies in a position to help, in collaboration with the Centre for Development Planning, Projections and Policies.

18. It is expected that for 1966 this programme will involve the study of some 20 to 25 countries accounting for 70 to 80 per cent of the trade of all developing countries. On the basis of these studies, the Secretariat will seek to establish regional and global estimates of trade needs for higher rates of growth.

19. The Board will appreciate the importance of carrying out the necessary work without undue pressure of time, and taking advantage of all possible consultation with the agencies and institutions referred to above. Now that there is a growing measure of agreement as to the general order of magnitude of the problem, the next stage of refining the analysis should be undertaken with the greatest care so as to achieve results that would command widespread acceptance as a basis for policy discussion.

20. The Secretary-General of UNCTAD will not be in a position to report to the Board substantively on these results until the end of 1966. He will, however, make a further progress report to the Board at its fourth session.